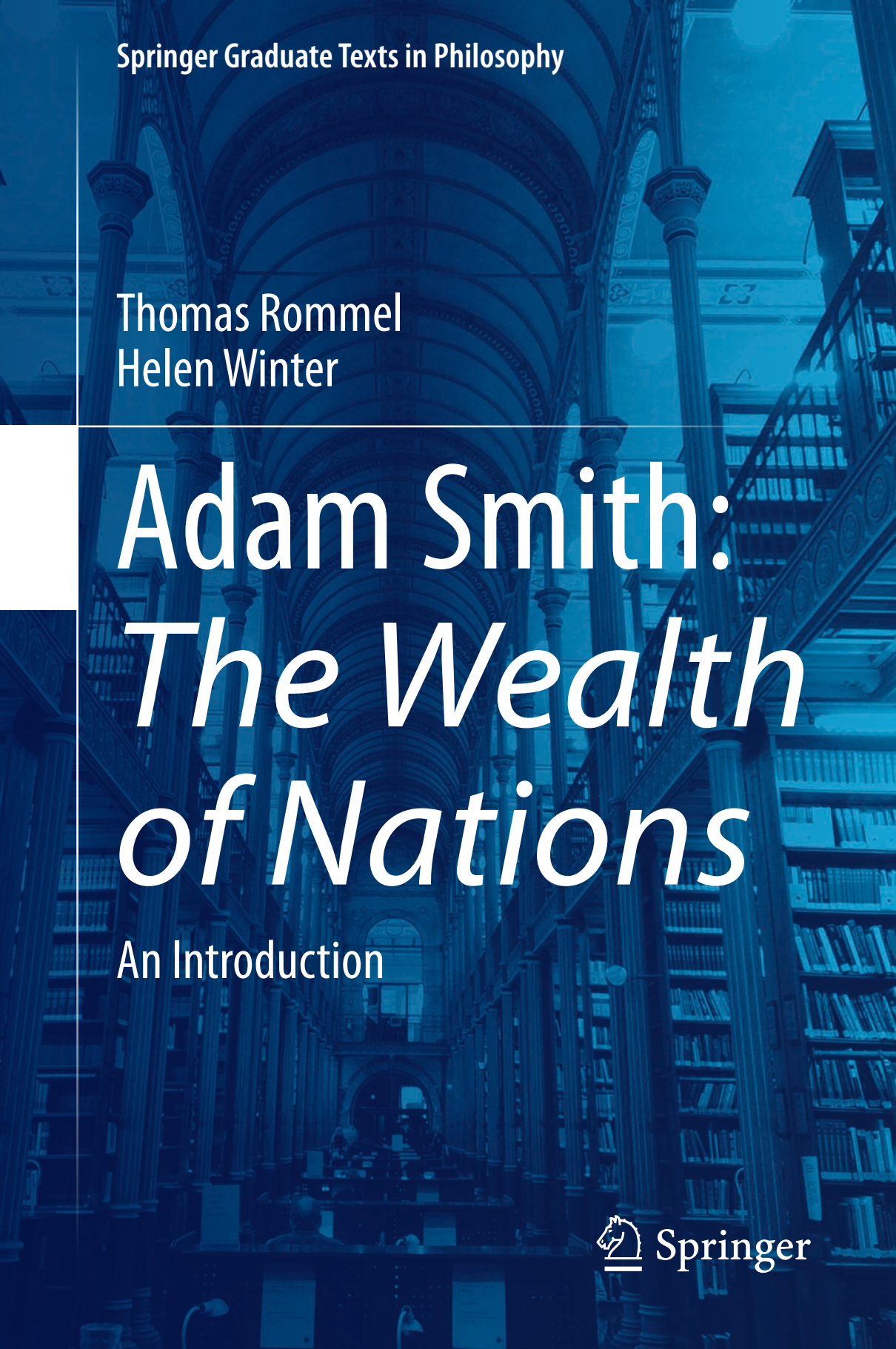
Springer Graduate Texts in Philosophy
Thomas Rommel
Helen Winter
Adam Smith:
The Wealth of Nations
An Introduction
Springer

Springer Graduate Texts in Philosophy

The Springer Graduate Texts in Philosophy offers a series of self-contained textbooks aimed towards the graduate level that covers all areas of philosophy ranging from classical philosophy to contemporary topics in the field. The texts will, in general, include teaching aids (such as exercises and summaries), and covers the range from graduate level introductions to advanced topics in the field. The publications in this series offer volumes with a broad overview of theory in core topics in field and volumes with comprehensive approaches to a single key topic in the field. Thus, the series offers publications for both general introductory courses as well as courses focused on a sub-discipline within philosophy.

The series publishes:

- All of the philosophical traditions
- Includes sourcebooks, lectures notes for advanced level courses, as well as textbooks covering specialized topics
- Interdisciplinary introductions – where philosophy overlaps with other scientific or practical areas

We aim to make a first decision within 1 month of submission. In case of a positive first decision the work will be provisionally contracted: the final decision about publication will depend upon the result of the anonymous peer review of the complete manuscript. We aim to have the complete work peer-reviewed within 3 months of submission. Proposals should include:

- A short synopsis of the work or the introduction chapter
- The proposed Table of Contents
- CV of the lead author(s)
- List of courses for possible course adoption

The series discourages the submission of manuscripts that are below 65,000 words in length.

Thomas Rommel • Helen Winter

Adam Smith: *The Wealth of Nations*

An Introduction

Springer

Thomas Rommel
Bruxelles, Belgium

Helen Winter
Bruxelles, Belgium

ISSN 2627-6046 ISSN 2627-6054 (electronic)
Springer Graduate Texts in Philosophy
ISBN 978-3-031-91618-2 ISBN 978-3-031-91619-9 (eBook)
https://doi.org/10.1007/978-3-031-91619-9

Translation, with additional material, of the originally titled Adam Smith für Anfänger. Der Wohlstand der Nationen, published by Dt. Taschenbuch-Verlag (dtv) 1999

Translation from the German language edition: "Adam Smith für Anfänger. Der Wohlstand der Nationen" by Thomas Rommel and Helen Winter, © Dtv Verlagsgesellschaft mbH & Co. KG, München 1999. Published by Dt. Taschenbuch-Verlag (dtv) 1999. All Rights Reserved.

© The Editor(s) (if applicable) and The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

This work is subject to copyright. All rights are solely and exclusively licensed by the Publisher, whether the whole or part of the material is concerned, specifically the rights of reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.
The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.
The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, expressed or implied, with respect to the material contained herein or for any errors or omissions that may have been made. The publisher remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

This Springer imprint is published by the registered company Springer Nature Switzerland AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

If disposing of this product, please recycle the paper.

Contents

Introduction 1
Time and Work 7
The Division of Labour 23
Disposition to Truck and Barter 31
Self-Interest and Natural Freedom 41
The Invisible Hand 51
Those Who Live by Wages 63
From Aristocracy to Meritocracy 75
Women 89
Parsimony, Wealth, Luxury 95
Concepts of Economic Liberalism 111
Role of State and Church 127
Conclusion 141
Background and Sources 145
Anthony Ashley Cooper, Earl of Shaftesbury 145
Bernard Mandeville 148
Daniel Defoe 151
David Hume 157
James Steuart 164
Bibliography 169
Index 173

Introduction

Abstract Adam Smith's "*The Wealth of Nations*" is a fundamental work in economic thought, exploring not only economic principles but also delving into the nature of mankind and the functioning of society. Smith's analysis encompasses human characteristics, moral values, and motivations, offering insights into the tension between individual interests and society in general. Key ideas—the invisible hand, the division of labour, and economic liberalism—are still associated with his name.

Despite its intimidating length, Smith's book is praised for its lucidity and structure. Although occasionally repetitive, Smith takes great pains to justify metaphorical language and lengthy passages. His meticulous observations and clear logic contribute to the enduring relevance of his work, which blends philosophy with practical economic analysis. Through critiques of colonialism and mercantilism, Smith presents a captivating narrative that resonates with modern readers. His blend of philosophical inquiry and practical economic analysis makes "*The Wealth of Nations*" a timeless classic, celebrated for its insights into morality, human nature, politics, society, and economics. Ultimately, this "*Introduction to The Wealth of Nations*" aims to convey admiration for Smith's enduring influence and the recognition of his work as a philosophical landmark, economic classic, and eminently readable book.

Influenced by Enlightenment ideals, Smith's writing style is characterized by simplicity and clarity, making his work engaging and accessible. The "*Introduction to The Wealth of Nations*" presents Smith's book thematically, providing extensive quotations and regrouping key passages to facilitate comprehensive discussion. It also offers cultural-historical background information to aid in understanding Smith's reasoning in the context of eighteenth-century Britain. All quotations are followed by precise references to the original text.

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_1

Today, three terms are associated with Adam Smith: the invisible hand, the division of labour, and economic liberalism. However, Adam Smith was first and foremost a moral philosopher who discussed the nature of mankind as he observed it in the eighteenth century. Smith commented on economic principles and with his most famous work *the Wealth of Nations* he succeeded in creating a classic that represents far more than the original title would suggest. For his *An Inquiry into the Nature and Causes of the Wealth of Nations* is a comprehensive analysis of human characteristics, moral values and motivations as well as a close examination of the principles by which a society functions. Few other scholarly works have left such a lasting impact on contemporaries and later generations.

The Wealth of Nations is considered one of the foundations of economic thought; Adam Smith, along with David Ricardo and John Stuart Mill, is regarded as one of the key thinkers of so-called classical economics. In his work he interprets economic relationships and analyses how the economy develops—with or without the influence of government. In doing so he adds new aspects to previous ideas of moral philosophy and the concepts of natural law. For his book Smith used the manuscripts of the university lectures he delivered at Glasgow University as well as his knowledge of London and Glasgow economic life at the time. In his political economy he scrutinises the role of mankind in society and in *The Wealth of Nations* he poses the central question of the ways in which individuals and society as a whole provide themselves with both the necessities and the pleasures of life. He addresses the tension between the interest of the individual and the community, noting that the distribution of supplies within a community is guaranteed by the mechanisms of exchange: it is exchange that enables the interplay of supply and demand. His account of the mechanisms of the market is still relevant today.

In this context Smith scrutinises every person's existential desire for security, for prosperity and for social recognition. He sees the close connection between material and immaterial values and shows their significance in the respective circumstances of life and society. In addition to these general questions and observations *The Wealth of Nations* is a highly political work when Smith evaluates the role of colonialism or criticises mercantilism which formed the prevailing economic policy of the time.

Despite its intimidating bulk—*The Wealth of Nations* comprises nearly 800 pages in five books—Smith's tome is a surprisingly good read. It is well structured, unpretentious and lucid and yet it is so substantial and compelling that even Smith's academic friends and colleagues were enthusiastic. However, the multiplicity of topics and the many detailed explanations occasionally seem redundant, or similar topics are discussed repeatedly, often in different chapters and slightly different contexts. Smith maintains for instance that the "great importance of this subject must justify the length of the digression […]." And he confidently assumes that his readers remember the entire text from beginning to end. But Smith, a born educator and gifted author, is aware of these difficulties: again and again he addresses his readers, encouraging them to read on when things get dull or complicated, drawing on anecdotes and referring to other authors "of great knowledge and ingenuity" who should be consulted for any remaining ambiguities. *The Wealth of Nations* is a true classic with one flaw only—the book is far too long.

There are several reasons for this: Smith observes human interaction very closely, and a defining feature of his approach is the intellectual and linguistic precision with which he arrives at appropriate evaluations. He weighs the advantages and disadvantages of certain procedures or patterns of behaviour, and he always distinguishes precisely between cause and effect:

> It is not because one man keeps a coach while his neighbour walks afoot that the one is rich and the other poor; but because the one is rich he keeps a coach, and because the other is poor he walks afoot. (I.viii, 33)

As this example of cause and effect shows, Smith writes about his observations in a clear and succinct fashion, his logic is clear and often compelling. His conclusions strive for dry sobriety, and in the desire to describe his observations accurately and to repeat important details so that even a superficial reader will not forget them, the many pages of *The Wealth of Nations* can sometimes become exhausting. Smith is aware of this, and so at the end of the fourth chapter, for example, he asks the reader:

> I shall endeavour to explain, as fully and distinctly as I can, those three subjects in the three following chapters, for which I must very earnestly entreat both the patience and attention of the reader: his patience in order to examine a detail which may perhaps in some places appear unnecessarily tedious; and his attention in order to understand what may, perhaps, after the fullest explication which I am capable of giving of it, appear still in some degree obscure. I am always willing to run some hazard of being tedious in order to be sure that I am perspicuous […]. (I.viii, 33)

But when Smith frets about monopolists, describes the scandalous exploitation of the colonies or depicts the plight of the poor, his language becomes captivating and his engaging, indignant account of educational deprivation and the lazy incompetence of English professors at Oxford is still worth a thought. Moreover, his dry humour and the occasional, subtle irony of his remarks make his book immensely readable. In addition, the text is sprinkled with surprising insights and striking observations: which modern reader knows that it is the potato that produces "the strongest men and the most beautiful women" and that luxury weakens women's childbearing capability, often even destroying it altogether?

The Wealth of Nations is an astonishing and timeless work that does not show its 250 years. And Smith manages to blend the many philosophical influences as well as his extensive observations in such a way that, almost imperceptibly, a rather overwhelming panorama of insights unfolds before the reader. These are not the lofty speculations of a theorizing philosopher or timid parlour scholar; this book vividly illustrates the crucial role philosophy plays in actual, in real life. Statements about morality and human nature, politics, society, and economics are so convincingly intertwined that Smith's book still inspires readers today.

Enthusiasm for and admiration of one of the great yet accessible thinkers of the eighteenth century is what this introduction to Smith's book is intended to convey. It will have served its purpose when *The Wealth of Nations* is recognized for what it is: a philosophical landmark, an economic classic, a work of world literature, and an eminently readable book.

The Wealth of Nations is divided into five "books," which means five parts with different chapters on different, but interrelated topics. Smith outlines the contents of the five books as follows:

1. The causes of this improvement, in the productive powers of labour, and the order, according to which its produce is naturally distributed among the different ranks and conditions of men in the society, make the subject of the first book of this Inquiry.
2. The second book, therefore, treats of the nature of capital stock, of the manner in which it is gradually accumulated, and of the different quantities of labour which it puts into motion, according to the different ways in which it is employed.
3. Since the downfall of the Roman empire, the policy of Europe has been more favourable to arts, manufactures, and commerce, the industry of towns, than to agriculture, the industry of the country. The circumstances which seem to have introduced and established this policy are explained in the third book.
4. Though those different plans were, perhaps, first introduced by the private interests and prejudices of particular orders of men, without any regard to, or foresight of, their consequences upon the general welfare of the society; yet they have given occasion to very different theories of political economy [...]. I have endeavoured, in the fourth book, to explain, as fully and distinctly as I can, those different theories, and the principal effects which they have produced in different ages and nations.
5. The fifth and last book treats of the revenue of the sovereign, or commonwealth.

Thus, while the first three books comment on labour, capital, and wealth the last two deal with political systems and the role of the state, and Smith's discussion is by no means limited to economic implications. Literature on *The Wealth of Nations* often focuses on the first books which contain Smith's most important economic arguments and therefore tends to cover the remainder of his book cursorily only. Stimulated by the intensive discussion of Smith's growing influence in other fields than economics, detailed studies of books four and especially five of *The Wealth of Nations* can now be found as well. In these books Smith develops his theory of philosophy, here he examines alternative models of higher education and how to reform the university, and here he comments on the role and function of the Church. It is also in the second half of *The Wealth of Nations* that he discusses a system of taxation and analyses economic policy in general.

Only by reading these five books as they were designed to be read, as one complete and comprehensive study, does it become clear that Smith arrives at a description of society on the basis of a discussion of human characteristics in general. By focusing exclusively on the first three books one tends to miss how closely Smith links the role of the individual with that of the state. It should be emphasised here that he sees the individual components of his study as integral parts, each of which are necessary building blocks for an understanding the whole.

However, this also means that passages taken out of context sometimes seem to contradict each other. Smith always assumes that readers are familiar with the entire

text and so in the fifth book, for instance, he returns to examples and arguments from the first, yet in a different context. This can easily give the impression that he is, for example, arguing once for and once against possibly negative effects that merchants and entrepreneurs might have on the well-being of society. Harsh criticism of the government in general can be found as well as conciliatory remarks about well-meaning politicians. It is rather tempting to skip passages or chapters in a long work such as *The Wealth of Nations* but it seems that some of the misunderstandings and misinterpretations of Smith's book, both among philosophers and economists, could have been avoided by a careful appreciation of the entire text.

Smith always argues according to a particularly narrative procedure and his approach is characterized by an approach in several steps. He usually starts with a theoretical or abstract description of a phenomenon or theory. He then continues by explaining this theory with a multitude of often rather striking examples, taken from literature or based on first-hand observation. These examples are always fully documented, supported by empirical data or reliable information from other sources, and all examples are vividly described. Finally, Smith summarizes again what has been said in a synthesis of his findings and ensures that his final statement can be assessed in terms of its significance for the whole book.

He follows the rhetorical principle of fusing utmost factual accuracy with rhetorical restraint and cautious phrasing, carefully giving a multitude of reasons for his evaluation. He often uses expressions such as "perhaps," "it seems," "one might think," "generally," or "as I think," all of them carefully highlighting an interpretation and no universal truth. These expressions emphasise that Smith is precise in his descriptions and that he positions himself clearly, avoiding ambiguities even if this means that yet another paragraph on the same topic follows after a lengthy discussion, which might seem redundant. Yet his personal take on key aspects of society—politics, the university, the Church etc.—is carefully made clear, and he cautiously avoids generalisations. Smith is a pleasant, modest author, a witty and ironic, but always lucid philosopher, who very subtly exposes the hidden motives behind seemingly altruistic behaviour.

He thus stands in a long tradition of the Enlightenment with its sober, matter-of-fact style which was influenced by the empirically minded and scientifically trained members of the Royal Society. In 1773 Smith was admitted to this important academic society dedicated to the advancement of science and he took very seriously one of the central concerns of the Royal Society, to write in matter-of-fact, unpretentious style, using plain and simple, straightforward yet precise language. Thus the style of *The Wealth of Nations* is characterized by a variety of phrases that occasionally apologize for imagery and metaphors because they take on an almost literary quality. Phrases such as "if I may be allowed so violent a metaphor," "if I may use such an expression" and "as it is commonly expressed" characterize Smith the rhetorician and philosopher, whose use of language makes *The Wealth of Nations* a particularly engaging read.

The present introduction to his book proceeds thematically. The following chapters on individual topics are therefore designed to present Smith's reflections from different perspectives and to reproduce and contextualize his thinking and his

discussions as fully as possible, with extensive quotations. The systematic presentation of Smith's economic, philosophical and social theses in individual chapters allows for a detailed discussion of interrelated passages. Therefore, key passages from *The Wealth of Nations* are sometimes regrouped to allow for a comprehensive discussion across all five books.

Smith's language is vivid yet plain, his style is engaging, and his examples illustrate his thinking clearly. Therefore, many passages from *The Wealth of Nations* are quoted verbatim to convey a sense of Smith's style of narration. If passages are omitted from quotations, these omissions are marked with […]. A brief overview of Smith's time and culture presents cultural-historical background information on eighteenth-century Britain which might serve to better understand Smith's reasoning and, ultimately, his book. In this introduction, all quotations from *The Wealth of Nations* are followed by references to the respective book and chapter, followed by the number of the paragraph. So, for example, (I.ii, 2) refers to book one, chapter two and in the second paragraph one may find the famous quotation that it is "not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." All quotations from *The Wealth of Nations* are identified in this manner.

Additionally, this *Introduction to The Wealth of Nations* provides background and sources to Smith's thinking and work in the form of substantial excerpts from five major works that range from the Anthony Ashley Cooper, the Earl of Shaftesbury's *Characteristics of Men, Manners, Opinions, Times* (1711), Bernard Mandeville's notorious poem "The Fable of the Bees" (1714), Daniel Defoe's *A Plan of the English Commerce* (1728) and David Hume's *An Enquiry Concerning the Principles of Morals* (1751) to James Steuart's *An Inquiry into the Principles of Political Economy* (1767). These texts cover philosophical subjects, questions on economics and empirical observation, and discuss human nature in a way that made them so popular in the eighteenth century that they became seminal texts for educated readers. It is significant that these and other authors provide the context to Smith's discourse on philosophy, economics, and literature that found its into *The Wealth of Nations*.

Questions

What are three key terms associated with Adam Smith, and how are they related to his broader philosophical outlook?

What distinguishes "*The Wealth of Nations*" as a work that extends beyond its original title?

How does Adam Smith present his arguments in "*The Wealth of Nations*," and how does he address these challenges within the text?

In what way does Adam Smith's writing style and approach contribute to the clarity and coherence of his arguments and ultimately to the enduring relevance and readability of "*The Wealth of Nations*"?

What are some potential pitfalls of taking passages from Adam Smith's work out of context, and how does Smith address this within his writing?

Time and Work

Abstract The chapter provides a survey of the social-political, economic, and philosophical context of eighteenth-century life and culture. It discusses the dominance of a wealthy male elite in public life during the eighteenth century and contrasts it with the harsh living conditions of the majority of the population, shedding light on the dynamics of society at the time. Smith's literary and philosophical influences, such as Thomas Hobbes, Francis Hutcheson, Bernard Mandeville and David Hume, shaped his understanding of and thoughts on human nature, ethics, and morality. The chapter outlines Smith's approach to economic analysis, which emphasises close observation and precise description, aiming for a reliable explanatory model based on empirical facts.

The chapter briefly outlines the biography of Adam Smith and its profound influence on his philosophical works. Smith's experiences as a tutor on the Grand Tour shaped his view on education, although he himself benefited greatly from the intellectual exchanges and observations during his travels. Despite his dislike of Oxford University, Smith excelled in his studies and later returned to Glasgow to become a professor of logic. "*The Theory of Moral Sentiments*" established his reputation as a moral philosopher. Smith's work culminated in the publication of "*The Wealth of Nations*" in 1776, which was highly acclaimed and solidified his legacy as a pioneering economist. Despite his fame, Smith remained humble and lived a quiet life until his death in 1790.

Smith's rejection of metaphysics stems from his deep-seated trust in sensory experience and observation as the foundation of knowledge. He advocates for objectivity and ideological neutrality in scientific observation in parallel with John Locke's principles. His interdisciplinary approach, drawing from philosophy, the developing field of economics, literature and the natural sciences, shaped his methodical approach to understanding human behaviour and social dynamics.

Smith asserts that a prudent and open-minded way of life, rather than renunciation and abstention, forms the basis of economic prosperity. He argues that virtuous behaviour must benefit society as a whole, emphasizing the importance of moderation and self-interest in maintaining social and political stability and facilitating economic growth. Smith also explores the division of labour in intellectual pursuits, advocating for specialisation as a means of advancing knowledge and benefiting

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_2

society. Despite the social disparities of his time, Smith emphasises the biological equality of all individuals, attributing differences in occupation and social status to education and activity rather than innate qualities.

Smith lived at a time when public life was largely dominated by a small number of wealthy merchants, intellectuals, and aristocrats. These were exclusively men, and they usually knew each other very well. As students they went to the same schools and universities, they usually studied together, read the same books and pursued common interests. Political and public life was almost exclusively determined by this small male ruling elite, the old boy network. They may have attended social events such as theatre performances, concerts, and public functions with their wives, but smoking circles, clubs, discussion events and coffee houses were reserved for men only. The coffeehouses in particular were of special significance for political life in the eighteenth century: this was where people of distinction met to talk, often over drinks in the relaxed atmosphere of an exclusive club and to read one of the many newspapers that had just become fashionable. Debates on political thought, philosophizing, business negotiations and discussions on the nature of the individual and society—all of this took place in clubs and coffee-houses. Such meeting places encouraged the exchange of opinions and ideas and gave astute observers like Smith the opportunity to study closely the social behaviours and political views of his contemporaries. Many of his observations find direct expression in his writings, especially in his thoughts on human nature, economics, and politics. Considering that Smith, as a professor of philosophy, had little first-hand knowledge of trade and business, accounting and managing human resources, his powers of observation are remarkable.

While public life was dominated by a comparatively small group of likeminded and usually wealthy male individuals, the vast majority of the rest of the population lived rather modestly, often poorly. In the cities one would find mainly craftsmen, day labourers, soldiers, servants and vast numbers of beggars, while in the countryside the peasants led a hard and deprived life. The famous engraver William Hogarth, who was very popular at the time as his etchings and engravings served as social commentary, illustrated in his popular engravings contemporary life in detail—and often drastically. His depictions offer an incomparable insight into the world of the eighteenth century in Britain, with alcohol abuse, the striking difference between rich and poor, prostitution, the spectacle of public executions, but especially the lives of the poor and other marginalised groups. Like Hogarth in his illustrations, Smith observes very closely in *The Wealth of Nations* what features distinguish the wealthy from the poor and, for example, how class and self-esteem are expressed in dress.

> But in the present times, through the greater part of Europe, a creditable day-labourer would be ashamed to appear in public without a linen shirt, the want of which would be supposed to denote that disgraceful degree of poverty which, it is presumed, nobody can well fall into without extreme bad conduct. Custom, in the same manner, has rendered leather shoes a

> necessary of life in England. The poorest creditable person of either sex would be ashamed to appear in public without them. In Scotland, custom has rendered them a necessary of life to the lowest order of men; but not to the same order of women, who may, without any discredit, walk about barefooted. In France they are necessaries neither to men nor to women, the lowest rank of both sexes appearing there publicly, without any discredit, sometimes in wooden shoes, and sometimes barefooted. (V.ii.k, 3)

The world of the poor, the life day labourers and farm workers in Britain and abroad was by no means familiar to Smith's educated contemporaries, and by describing the harsh living conditions of ordinary people with expertise and in detail, he contributes considerably to a better understanding of the dynamics of the society around him. In the eighteenth century, society was strongly influenced by what today may be interpreted as prejudices and misunderstandings, some of which were uncontested and accepted as a given truth, while others were deliberately perpetuated for political reasons. Corrupt members of the upper classes, for instance, repeatedly complained that immorality and crime rates were notoriously high among the poor and thus needed harsh punishment, and it was no coincidence that Thomas Gay's *Beggar's Opera* enjoyed great popularity and ran for many performances. It shows in a humorous way how people enrich themselves at the expense of society in general and that fraud and immoral behaviour in eighteenth-century London were by no means limited to the poor. Gay's opera, like its modern version, Bertolt Brecht's *Threepenny Opera*, was immensely popular because it portrayed depraved society in an entertaining way; but the play was no more able to offer solutions or give explanations for the connection between economics, individual interests and society than the many other works by poets, novelists and playwrights—that was reserved for analytically thinking authors like Smith.

The response in literature and on the stage, however, showed that not only were philosophers like Smith grappling with the state of society and the role of human nature, but that many intellectuals were also trying to take stock of society. The transition from an agrarian to an industrial society was just beginning, and the first large-scale manufacturers such as Wedgwood, the porcelain company still famous today, and textile producers in northern England with a huge intake of unskilled labour began producing for the domestic and for overseas markets.

At the same time, most people in the countryside often remained uneducated and had never seen anything but their village. Travelling for pleasure was unheard of and unaffordable, women stayed at home, children were considered cheap labour only. Moreover, rigid class barriers prevented social advancement or even social change. Thus, in his novel *Robinson Crusoe* written at the beginning of the eighteenth century, Daniel Defoe described how Crusoe, before he is shipwrecked and survives on a deserted island, receives advice from his father never to strive for advancement and to be content with his modest social status.

But one group of people, however, could and would no longer be satisfied with traditional, limited social opportunities. The emerging trade with Europe, the British colonies and markets overseas made it possible for an increasing number of mostly well-educated, successful professionals to amass considerable fortunes through business and trade and to gain social influence. These members of the meritocracy,

people who had earned merit and not inherited aristocratic status, increasingly disputed the aristocrats' ancestral right to social and political influence. This, of course, changed political life: the two major parties, the liberal Whigs and the conservative Tories, increasingly had to deal with a new, economically minded and pragmatically acting group of successful professionals, who increasingly demanded social recognition and a political say. And this social development, the emergence of a new, wealthy, middle-class group of professionals and merchants with particular skills and thus social, cultural and political aspirations, contributed to Smith's thinking about the structure and function of society and the maintenance and increase of the nations' prosperity.

Smith was and still is a pioneer of modern economics. *The Wealth of Nations* features prominently in speeches by politicians of all parties and political orientations as an important contribution to explaining economic and social relationships. Yet Smith did not see himself as an economist: he was a professor of moral philosophy, the subject of "economics" did not yet exist in his time. It is therefore not surprising that Smith's approach to explaining human motives, the economy and society starts from philosophical reasoning, which serves as the basis for his thoughts on economic interaction. At the centre of this he sees individual human beings in society. Smith deals with human nature in his first book, *The Theory of Moral Sentiments*, published in 1759. With this, he is part of a long tradition of philosophers who dealt with questions about the nature of human interaction, ethics, and morality. The fundamental question is what enables people to distinguish good from evil, why social groups are formed and why such contradictory qualities as egoism and selflessness seem to play an important role in public life. With his works, Smith continues a philosophical debate to which Thomas Hobbes had made a very influential contribution in 1651 with his controversial book *Leviathan*. According to Hobbes, people are selfish beings who live in a permanent state of war. Hobbes writes:

> Whatsoever therefore is consequent to a time of Warre, where every man is Enemy to every man; the same is consequent to the time, wherein men live without other security, than what their own strength, and their own invention shall furnish them withall. In such condition, there is no place for Industry; because the fruit thereof is uncertain; and consequently no Culture of the Earth; no Navigation, nor use of the commodities that may be imported by Sea; no commodious Building; no Instruments of moving, and removing such things as require much force; no Knowledge of the face of the Earth; no account of Time; no Arts; no Letters; no Society; and which is worst of all, continuall feare, and danger of violent death […]. (chap. XIII)

And Hobbes concludes the passage with the famous line: "And the life of man, solitary, poore, nasty, brutish, and short."

Since people are primarily concerned with themselves and their own advantage, they only find themselves in society because as individuals they are too weak to survive alone. The Church and many politicians were outraged by these ideas, and philosophers pondered how to discern human nature, especially people's ideas of morality. Hobbes' rather negative view of human nature, however, was eventually taken to an extreme at the beginning of the eighteenth century in the poem of a

Dutchman living in England: Bernard Mandeville published his "Fable of the Bees," a poem written in bumpy doggerel verse, which portrayed private vice as the cause of public benefit and as the main cause of prosperity for the individual and the state. The poem claims that only vanity, ostentation, and self-interest induce people to stimulate the national economy by spending more and more on luxury and wealth, thus guaranteeing employment for all. According to Mandeville society functions well when everyone deceives everybody else and exploits the poor and the weak.

> Thus every Part was full of Vice,
> Yet the whole Mass a Paradise;
> […]
> The worst of all the Multitude
> Did something for the Common Good. (para. 9)

Everybody, Mandeville's poem claims, is solely concerned with their own advantage and because people are driven by egoism and depravity, excessive individual consumption leads to nationwide prosperity. Human nature appears corrupt, bigoted and evil in this hugely popular poem, which immediately after its publication was publicly attacked, reviled from Church pulpits and, of course, condemned by politicians. English society was outraged: was this diabolical poet (Mandeville = man devil) really justified in characterising human nature as corrupt and bad, morally reprehensible and vicious? Had not eminent moral philosophers like the Earl of Shaftesbury argued that people are fundamentally good and that benevolence is an innate quality of all human beings? At the beginning of the eighteenth century Anthony Ashley Cooper, the third Earl of Shaftesbury, wrote a very influential philosophical work entiteld *Characteristicks of Men, Manners, Opinions, Times* in which he closely scutinised moral sentiments, in particular the role of virtue in society. Shaftesbury's view that human beings are fundamentally good and that benevolence is one of the key aspects of a functioning and therefore prosperous society strongly influenced Smith.

The dispute over what constitutes the essence of human nature and what holds society together at its core ran through the entire eighteenth century and particularly motivated Smith's teacher, Francis Hutcheson. Following Hutcheson's lectures on moral philosophy, Smith realised that while Mandeville's polemical poem was provocative and enormously entertaining, the workings of society are much more complicated. Smith set out to identify the principles that lead to prosperity and profit in a functioning economy and thus at the same time understand the nature of human motivation in society, which he saw as causally contributing to the existence and prosperity of the community.

In *The Wealth of Nations*, Smith decided against a speculative model of explanation, but opted for the method of close observation and precise description. In this way, he hoped for a reliable explanatory model of society based on empirical facts, which draws derivations and conclusions from actually observed and thus verifiable processes. With this approach, however, he not only significantly contributed to the empirical description of the world, from which he derived his model of economic thought. Smith also wrote a comprehensive philosophical classic, which at the same

time offers unique insights into the culture of the eighteenth century through its meticulously chosen wealth of detail. The book became his legacy and on his tombstone he is to this day remembered as the author *of The Wealth of Nations*.

Rather surprising for an author of books on philosophy, Adam Smith's biography greatly influenced his work. His thoughts on education were shaped by the intellectual environment of Oxford where he spent several years as a student, he was close friends with the important philosopher David Hume and the ideas of his teacher Francis Hutcheson amongst others shaped his theories on economics—probably far more than the French thinkers he met on his 2-year journey through France. As we know today, Smith, who was born in 1723 in Kirkcaldy, a small town in Scotland, had a library that included works by Italian and French authors; but he was an acknowledged connoisseur of contemporary English literature, Greek and Latin classics and, of course, philosophical texts, which is clearly evident when reading *The Wealth of Nations*.

Smith, an only child whose father died before Adam was born, had a close relationship with his mother throughout his life. He was a good student and went to college in Glasgow at the age of 14, not unusual for a boy at his time. At college he came into contact with Francis Hutcheson, who lectured on moral philosophy and was considered a brilliant orator and excellent teacher. Smith was greatly impressed by Hutcheson, but it was clear to both student and teacher that if one was intelligent and wanted to get on in the world one would have to leave Scotland to study at one of the two great English universities, Cambridge or Oxford. Smith won a well-endowed scholarship to Oxford and in 1740 studied there for 6 years. There he devoted himself especially to Latin and Greek authors, made use of the extensive library, but found the atmosphere at Oxford cramped, oppressive and academically uninteresting. Much of *The Wealth of Nations* is therefore devoted to a bitter criticism of the lazy, incompetent and narrow-minded professors, for at "Oxford, the greater part of the public professors have, for these many years, given up altogether even the pretence of teaching." (V.i.f, 8) In his biography, it is reported that the young student Smith was caught reading the work of his later friend and famous contemporary, David Hume. In England, reading this philosophical work was apparently suspect and Smith was reprimanded for having read a harmful book. His Scottish background and a somewhat critical attitude towards the English in general might play a part in this anecdote, but the intelligent and inquisitive student Smith must have suffered from the less than favourable academic conditions in Oxford.

It is revealing, however, that Smith like many other Scots and Irish before and after him very quickly picked up an English pronunciation, which at that time was synonymous with high social standing. It is reported that throughout his life, Smith spoke English with an Oxford accent and insisted that his students also use what was considered a refined pronunciation and not discuss philosophy in broad Scots. This keen awareness of the importance of language is characteristic of Smith whose *The Wealth of Nations* is marked by a careful and precise use of language.

In 1746 Smith returned to Glasgow and became professor of logic in 1751. Two years later he began his first major work, *The Theory of Moral Sentiments*. This book on the concept of sympathy introduced the idea of the "impartial spectator" and sold

out as soon as it appeared, and there were six editions during Smith's lifetime alone. With *The Theory of Moral Sentiments*, Smith established his fame as a moral philosopher, and several translations into German and French also document continental Europe's interest in Smith's decisive contribution to the discussion of ethics.

After an extended trip to France, Smith moved with his mother and cousin to his native Kirkcaldy and even his friend David Hume could not persuade him to live in the culturally much more appealing city of Edinburgh. It was probably during this period that he wrote *The Wealth of Nations*, but Smith spent another 4 years revising the manuscript in London before it was published on March 9, 1776. The book was a phenomenal success for Smith, and a further five editions appeared before his death, all of which he meticulously revised and corrected. After the book's publication, Smith returned from London to Scotland, became a customs inspector which gave him a not inconsiderable income but little actual work, and, cared for by his mother and cousin, lived a quiet life as an esteemed scholar. He never married. In 1787 he was appointed honorary Lord Rector of the University of Glasgow and he was highly appreciated by his peers. A much-quoted anecdote has it that once, at a gathering with the Prime Minister Pitt, all those present rose from their seats when Smith entered. He humbly asked to be seated, to which Pitt allegedly replied "No, we wish to remain standing until you are seated, for we are all your students." Adam Smith died on 17 July 1790, highly honoured and, more importantly for an author, widely read.

Smith not only gained renown in the academic world, he also served as private tutor to a young duke on the Grand Tour. In the eighteenth century, it was common especially in the well-heeled circles of English society, for young men to embark on an extended journey through France, Italy and Germany under the tutelage of an experienced and educated guardian. This so-called Grand Tour, the great European journey, served to acquire a certain worldliness and a sense of what was considered the European way of life. The tour often lasted many months, was extremely expensive and thus exclusive, and it shaped how the British male elite saw the Continent. Many novels of the eighteenth century, such as Lawrence Sterne's *A Sentimental Journey Through France and Italy* and Oliver Goldsmith's *The Vicar of Wakefield*, report on such tours by wealthy Britons. Too often, however, young men sent abroad with lots of money and little supervision were less interested in the culture of the host country than in thrills and entertainment. In Sterne's *Sentimental Journey* the narrator makes fun of "Lord A. and B. to go the grand tour, but had gone no further than Paris," and Lord Byron's politically incorrect view of the Grand Tour in his poem "Don Juan" further highlights this attitude.

> Let us have Wine and Woman, Mirth and Laughter,
> Sermons and soda-water the day after.
> Man, being reasonable, must get drunk;
> The best of Life is but intoxication:
> Glory, the Grape, Love, Gold, in these are sunk
> The hopes of all men, and of every nation;
> [...]
> Get very drunk, and when
> You wake with headache—you shall see what then! (CLXXIX)

It is not surprising that Smith, the prudent professor of philosophy, was offered the role of a tempering tutor and cultivated travelling companion. He had acquired such fame as an astute philosopher and shrewd judge of character that the well-paid tutorship of a young nobleman should present him with no difficulty. For a princely fee and a pension of £300 a year for life, which was more than equal to his previous income as a professor, he travelled the continent in 1764 as companion to the young Duke of Buccleugh. The journey does not seem to have been a success for the young nobleman's education, for Smith draws a sober conclusion in *The Wealth of Nations*:

> In England it becomes every day more and more the custom to send young people to travel in foreign countries immediately upon their leaving school, and without sending them to any university. Our young people, it is said, generally return home much improved by their travels. A young man who goes abroad at seventeen or eighteen, and returns home at one and twenty, returns three or four years older than he was when he went abroad; and at that age it is very difficult not to improve a good deal in three or four years. In the course of his travels, he generally acquires some knowledge of one or two foreign languages; a knowledge, however, which is seldom sufficient to enable him either to speak or write them with propriety. In other respects he commonly returns home more conceited, more unprincipled, more dissipated, and more incapable of any serious application either to study or to business than he could well have become in so short a time had he lived at home. By travelling so very young, by spending in the most frivolous dissipation the most precious years of his life, at a distance from the inspection and control of his parents and relations, every useful habit which the earlier parts of his education might have had some tendency to form in him, instead of being riveted and confirmed, is almost necessarily either weakened or effaced. Nothing but the discredit into which the universities are allowing themselves to fall could ever have brought into repute so very absurd a practice as that of travelling at this early period of life. By sending his son abroad, a father delivers himself at least for some time, from so disagreeable an object as that of a son unemployed, neglected, and going to ruin before his eyes. (V.i.f, 36)

One may probably assume that personal experience has gone into this assessment. In Smith's eyes, the originally laudable goals such as broadening cultural horizons, tolerance, cosmopolitanism and independence were no longer tenable. In Smith's eyes the Grand Tour had degenerated into a farce as it only served to get the lazy offspring of the rich out of the country for a few years. Responsible for this dilemma were the universities, which in Smith's view did not live up to their educational mandate. And here, as he states in the fifth book of *The Wealth of Nations*, he sees need for action on the part of society.

Smith might not have been happy with the motives of young men to embark on the Grand Tour, but for him his extended trip to the Continent proved remarkably successful. He met with philosophers, authors and statesmen while he was travelling through Europe. By this time he was already so well known internationally that the doors of prestigious salons were open to him. Everyone made an effort to meet the famous Briton, and Smith was courted at receptions wherever he went. In Paris, he met the king's personal physician, the economist and founder of the physiocratic school François Quesnay, the encyclopaedist Jean-Baptiste le Rond d'Alembert and other authoritative thinkers of the time. However, Smith does not seem to have been particularly fond of the physiocratic school, although he certainly appreciated the French philosophers as astute thinkers. In *The Wealth of Nations* he subjects the

economic theories of his time to rigorous scrutiny and finds them unsuitable to satisfactorily explain the nature and causes of the wealth of nations. It was not least the dissatisfaction with the economic policies of the time, both in Britain and on the Continent, that prompted Smith to write his now classic book.

Smith was a man who loved the company of interesting and educated contemporaries. Together with the painter Allan Ramsay and his friend David Hume he founded the Debating Club of the Select Society in 1754. The members of the Select Society came from all professions and interests: what they had in common was that they were eminent and well-informed Scottish scientists, philosophers, aristocrats, merchants, men of letters and of the Church. This club lasted for almost 10 years, during which time topics from politics, economics, science and culture were debated at the regular meetings.

Clubs of this kind were not uncommon in the eighteenth century; Smith himself was also a member of other societies, such as the Glasgow Economic Society. But the fact that almost all intellectuals met in the Select Society testifies to the relevance of the discussions that took place there. The leading men of the Scottish Enlightenment, among them David Hume, Hugh Blair, William Robertson, Adam Ferguson, Lord Kames and of course Smith himself, discussed how knowledge can be obtained and described, how hypotheses are tested and whether results can be reproduced. Analysis and the application of theories to real-life questions were central in debates by experts in their respective fields of interest.

They developed procedures for the presentation of empirical data in the context of a focussed discussion of theory, as can be seen in *The Wealth of Nations*. Smith earned the membership of the Royal Society, the highest honour that could be bestowed on a scientist in his time, for his contribution to the understanding of how human nature, society and the economy are intertwined.

At the same time, Smith's active membership in clubs and time spent in the company of like-minded people shows that far from being an isolated philosopher, he was a cosmopolitan thinker, a comprehensively educated man who drew his observations from engagement with real life. He cherished the lively intellectual exchange with both his students and his friends and acquaintances, and a considerable number of observations in *The Wealth of Nations* are based on insights obtained first-hand. This is an important little detail, but one that contributes considerably to a better understanding of his text: while Smith's students were generally very young and probably more comparable to today's high school students, his friends and acquaintances were the leading thinkers, merchants, and politicians of the time. *The Wealth of Nations* is written for both audiences, students and experts. In order to address every member of this broad spectrum of readers, Smith proceeded from a clear and systematic outline of the text to memorable examples and the final contextualisation, interpretation and summary. In *The Wealth of Nations*, this is presented in an unpretentious, accessible style while maintaining a high level of abstraction.

Smith outlines his philosophical theory in his first book, *The Theory of Moral Sentiments*. He discusses the thinkers who influenced him and describes, compares and evaluates their theories. Questions about philosophical influence are complicated in *The Wealth of Nations*, since there are few extensive quotations or specific

references to other works in the text: Smith, with few exceptions, largely refrains from both acknowledgment and criticism. He mostly implies a certain familiarity with the theories of other philosophers, with the exception of "by far the most famous philosopher and historian of our time," his friend David Hume, as well as Bernard Mandeville or Thomas Aquinas. In *The Wealth of Nations* theories of moral philosophy feature less prominently while observations of human motives and patterns of behaviour, particularly in the context of economic interaction, move to the foreground. Moreover, philosophical reflections are scattered throughout the work and are mostly inconspicuously embedded in political or economic analyses with varying degrees of emphasis. Smith simply expects the reader to be familiar with the philosophical discourse of his time.

Smith is firmly rooted in the tradition of scientifically oriented, moral philosophical thought of the seventeenth and eighteenth century. In this respect, Isaac Newton's scientific approach, described in his ground-breaking work Optics in many respects serves as the inspiration for Smith's thinking, as it did for other contemporaries. The empirical approach to analysis and the ensuing interpretation, which characterises Smith's procedure, is based on an orientation towards observation and on conclusions derived from observed phenomena. From this, theoretical models are developed that may also be valid for other areas of thought. This approach produces abstract models of explanation which are then used for phenomena observed in different contexts. Mechanisms of interaction in society as a whole and of human nature in particular as observed in individual behaviour follow similar principles. According to Smith this notion of a structural similarity of observed phenomena allows for a wide range of possible applications, because once cause and effect are identified in one area, they can then be transferred to others in a way that allows for a better understanding of this particular context.

The natural sciences and empirical philosophy play a special role in this context, because an analytical approach combined with the application of theory to modelling makes it possible to recognise parallels and to arrive at occasionally surprising insights. It is the detached view, the alternative perspective, the interdisciplinary approach that proves beneficial.

> All the improvements in machinery, however, have by no means been the inventions of those who had occasion to use the machines. Many improvements have been made by the ingenuity of the makers of the machines, when to make them became the business of a peculiar trade; and some by that of those who are called philosophers or men of speculation, whose trade it is not to do anything, but to observe everything; and who, upon that account, are often capable of combining together the powers of the most distant and dissimilar objects. (I.i, 9)

This statement reveals an empirical view of science that favours the formation of systems and points out how important knowledge of the overall context can also be for an understanding of minute details. Here in particular Smith sees the primary role of fields of thought such as philosophy. It is no coincidence that the concept of *The Wealth of Nations* in its entirety amounts to a descriptive model of the world which, via the recognition and analysis of details in the nature of human beings, aims at an overall representation of the mechanisms of society at large. Thus, the

massive accumulation of facts can also be seen as Smith's attempt to form as comprehensive a collection of material as possible on specific questions, which then allows conclusions to be drawn about the overall context of all interconnected details.

In Smith's view, this kind of scientific procedure is fundamentally a historical process that presents itself as a continuous sequence of further developments. This perspective is teleological, analysing the individual stages of scientific development from the beginnings to the present time in the eighteenth century, for him the final, culminating point of development, the telos. Each subsequent stage thus also encompasses the preceding one and at the same time represents a further, more fully developed stage. This also applies to Smith's own field of activity, that of moral philosophy, which deals with the definition of human nature and the categories that determine the understanding of ethics. Philosophy can draw on a long history of intellectual evolution and thus on a considerable level of knowledge accumulated by outstanding thinkers:

> In every age and country of the world men must have attended to the characters, designs, and actions of one another, and many reputable rules and maxims for the conduct of human life must have been laid down and approved of by common consent. As soon as writing came into fashion, wise men, or those who fancied themselves such, would naturally endeavour to increase the number of those established and respected maxims, and to express their own sense of what was either proper or improper conduct […]. (V.i.f, 25)

He thus outlines the first steps of scientific work: collecting material, compiling observations, and adding his own findings. At the same time, he addresses the important aspect of appropriate linguistic implementation; Smith, like many Enlightenment thinkers of the eighteenth century, and here especially the members of the Royal Society, was convinced of the central function of language.

In the passage below Smith outlines the historicising process in the scientists' approach, which classifies all knowledge up to a certain point in time. However, the decisive next step is still missing: indispensable for the compilation of material is the formation of a system, the construction of an explanatory model that links all observations in a meaningful way. Smith therefore goes on to say how scientists and philosophers proceed.

> They might continue in this manner for a long time merely to multiply the number of those maxims of prudence and morality, without even attempting to arrange them in any very distinct or methodical order, much less to connect them together by one or more general principles from which they were all deducible, like effects from their natural causes. The beauty of a systematical arrangement of different observations connected by a few common principles was first seen in the rude essays of those ancient times towards a system of natural philosophy. Something of the same kind was afterwards attempted in morals. The maxims of common life were arranged in some methodical order, and connected together by a few common principles, in the same manner as they had attempted to arrange and connect the phenomena of nature. (V.i.f, 25)

The decisive point here is the statement that individual findings must be methodically ordered and systematised in order to then identify fundamental principles that are assumed to be the driving force behind phenomena like cause and effect. Just as

the empirically proceeding natural scientist examines physical phenomena for the influence of causes, Smith expects to gain knowledge in moral philosophy if the triggers of certain effects can also be identified here.

Here, too, the basis is the evaluation of observations and the subsequent systematisation of findings, which Smith sees as the basis for convincing reasoning and conclusions. He understands science to mean careful experimentation and observation so that useful discoveries can be made. "The experimenting and observing which, with care and perseverance, may lead to so many useful discoveries," is the basis of his understanding of science and shapes his approach especially in *The Wealth of Nations*. For all his examples—grain prices, the value of precious metals or on production processes and many others—lead to conclusions based on a very thorough compilation of material. Today one would speak of empirical data collection, the quality of which is guaranteed by objectivity and representativeness. Smith uses his thoroughly researched compilations of details, collected with incorruptible care by himself, as comprehensive, in his view objectively valid data material which puts him in the position of an encyclopaedist who has all the knowledge of his time at his disposal. With the difference that Smith goes beyond solely collecting and systematising work to carry out an evaluative analysis that uses the wealth of his information as the basis for more far-reaching and interpretative conclusions only.

The fifth book of *The Wealth of Nations* contains Smith's account of the historical development of philosophy. A retrospective view enables him to make evaluative judgements about various schools and currents of philosophy and to relate them to his personal understanding of philosophy. Just as Smith in the first chapters of his book perceives the social and economic development of mankind as aiming at a final projection, an end point, in his eyes philosophy too evolved through various stages of development to its full bloom only during his lifetime—the teleological view of human development. Smith sees the history of progress of all developments, be it philosophy, history, politics or even society, as linear, as a development towards a possible end point. And in his eyes, this end point was reached in eighteenth-century Britain, giving him the opportunity to retrospectively evaluate the individual stages from, as he saw it, the top of human evolution.

The Wealth of Nations is highly critical of all things speculative. Smith makes this clear in his critical assessment of the historical division of science into physics and metaphysics. In a rather polemical passage, Smith considers metaphysics, that is the preoccupation with questions of being that go beyond natural phenomena, to be scientifically insubstantial. His criticism is directed against speculative thinking, which in his view wants to do without an empirical basis, but presents itself as a discipline in the form of metaphysics as these ideas:

> were frequently at best but very slender probabilities, and sometimes mere sophisms, which had no other foundation but the inaccuracy and ambiguity of common language. (V.i.f, 26)

With this Smith joins the critique of metaphysics from the ranks of the empiricists of the seventeenth and eighteenth century. His rejection of metaphysics reveals a deep-rooted trust in the reliability of the senses and the resulting incorruptibility of observation. This is an important aspect of his understanding of science, in which

objectivity and ideological neutrality in the observer are considered fundamentally possible. Sensory impressions, coupled with experience and critical distance, are considered by Smith to be the reliable basis of all knowledge. Here the close connection to John Locke becomes clear and it is not surprising that Smith demands the same principles of scientific argument for his own discipline. His critique of the philosophical schools and, more precisely, of the various moral philosophical considerations in the eighteenth century thus repeatedly reflects a critical distance from all those approaches that, in his view, strayed too far from the observable world and the reality of life in society. Smith justifies his criticism by interpreting certain brands of philosophy as "corrupt."

> In the modern philosophy it was frequently represented as generally, or rather as almost always, inconsistent with any degree of happiness in this life; and heaven was to be earned only by penance and mortification, by the austerities and abasement of a monk; not by the liberal, generous, and spirited conduct of a man. Casuistry and an ascetic morality made up, in most cases, the greater part of the moral philosophy of the schools. By far the most important of all the different branches of philosophy became in this manner by far the most corrupted. (V.i.f, 30)

In Smith's view, however, an "open-minded, generous and prudent way of life" alone is the basis of a functioning society and thus makes possible the social and economic prosperity of nations. Therefore, from his point of view, which is based on actual life and realistic descriptive models of human nature, it cannot be possible to construct a basis for a concept of human nature in which the individual and the community benefit solely through renunciation and abstaining from consumption. A catalogue of virtues based on penance and renunciation, monastic abstinence and humility cannot ensure happiness because it evidently ignores human nature and its influence on social reality. Again and again in *The Wealth of Nations* Smith emphasises that the natural impulse of self-preservation is an integral part of a well-functioning and mutually satisfying society.

Exemplary behaviour is not characterised by renunciation and denial alone, and for Smith this means a radical break with a traditional understanding that had persisted well into the eighteenth century. His personal experience and the multitude of examples cited in *The Wealth of Nations* show that the functioning of society is ensured when people's natural instincts can be implemented in a generally acceptable and thus productive manner. The polity then benefits through increased stability, guaranteed security and rising prosperity when the individual person pursues a moderate self-interest. Truly virtuous behaviour can thus no longer consist solely in selfless renunciation but must benefit social conditions as an ethical foundation. For Smith, this results in basing the political form of social organisation on moral systems that have proven to be stabilising and economically effective, because they adequately take into account the nature of human beings. In his view, the spectrum of possible conceptions of morality ranges from conservative-strict to liberal-open, whereby Smith identifies different levels of what is considered morally acceptable in a changing society.

> In every civilised society, in every society where the distinction of ranks has once been completely established, there have been always two different schemes or systems of moral-

> ity current at the same time; of which the one may be called the strict or austere; the other the liberal, or, if you will, the loose system. The former is generally admired and revered by the common people: the latter is commonly more esteemed and adopted by what are called people of fashion. The degree of disapprobation with which we ought to mark the vices of levity, the vices which are apt to arise from great prosperity, and from the excess of gaiety and good humour, seems to constitute the principal distinction between those two opposite schemes or systems. (V.i.g, 10)

According to Smith, the valuation attached to frivolous, i.e. wasteful behaviour determines the general understanding of morality. In his discussion of luxury, he focuses primarily on the social and economic effects on society in general and shows to what extent the natural desire for luxury is beneficial to general prosperity. In this particular discussion he therefore goes on to outline the different assessments according to the two moral systems:

> In the liberal or loose system, luxury, wanton and even disorderly mirth, the pursuit of pleasure to some degree of intemperance, the breach of chastity, at least in one of the two sexes, etc., provided they are not accompanied with gross indecency, and do not lead to falsehood or injustice, are generally treated with a good deal of indulgence, and are easily either excused or pardoned altogether. In the austere system, on the contrary, those excesses are regarded with the utmost abhorrence and detestation. (V.i.g, 10)

There are good reasons for this assessment; behaviour that is commonly portrayed as vicious can easily be afforded by the rich rather than by those groups of people who have to struggle to make ends meet:

> The vices of levity are always ruinous to the common people, and a single week's thoughtlessness and dissipation is often sufficient to undo a poor workman for ever, and to drive him through despair upon committing the most enormous crimes. The wiser and better sort of the common people, therefore, have always the utmost abhorrence and detestation of such excesses, which their experience tells them are so immediately fatal to people of their condition. The disorder and extravagance of several years, on the contrary, will not always ruin a man of fashion, and people of that rank are very apt to consider the power of indulging in some degree of excess as one of the advantages of their fortune, and the liberty of doing so without censure or reproach as one of the privileges which belong to their station. In people of their own station, therefore, they regard such excesses with but a small degree of disapprobation, and censure them either very slightly or not at all. (V.i.g, 10)

Morality is thus determined by two factors: on the one hand it is the immediate social context, in each case the members of one's own social class, that sets the norms for moral and thus socially acceptable behaviour. Secondly, it is the economic framework that makes such behaviour possible or permits it without existential repercussions. Smith does not base his observation on any kind of abstract ideal of morally appropriate behaviour but uses socially accepted standards as a basis. His evaluation, which is expressed in his somewhat biased term "vice of frivolity," nevertheless does not influence his conclusion.

Smith takes observations as the basis for statements about moral systems which he derives from social reality as observed by himself. According to his view, certain types of behaviour are legitimate or even beneficial for a prosperous society. In this example, too, he shows how highly he values the seamless economic functioning of society and seeks to bring it into line with human nature. His moral-philosophical

considerations are thus directed towards a pragmatic assessment of how moral values come about. For whom they apply in their different forms is based on his observation of contemporary society.

If the understanding of moral philosophy in *The Wealth of Nations* is thus primarily influenced by social and economic factors, then a similarly reality-based analysis suggests itself for the profession of philosopher. Smith shows that the different areas of human employment introduced at the beginning of his book have developed as a result of the division of labour and that philosophy is not exempt from this principle. On the contrary, philosophy, like every other profession, benefits from the division of labour, the engine of progress.

> In the progress of society, philosophy or speculation becomes, like every other employment, the principal or sole trade and occupation of a particular class of citizens. Like every other employment too, it is subdivided into a great number of different branches, each of which affords occupation to a peculiar tribe or class of philosophers; and this subdivision of employment in philosophy, as well as in every other business, improves dexterity, and saves time. Each individual becomes more expert in his own peculiar branch, more work is done upon the whole, and the quantity of science is considerably increased by it. (I.i, 9)

While today specialisation is recognized as an indispensable criterion in professional life, this was by no means the case in Smith's time. He himself, and with him some of his educated contemporaries, had all the knowledge of their time at their disposal. The famous author Samuel Johnson, for example, wrote a complete dictionary of the English language, single-handed. And Edward Gibbon, in the same year that *The Wealth of Nations* appeared, published his monumental study *Decline and Fall of the Roman Empire* which synthesized all the historical knowledge of the time and became a landmark of historiography in the English language. It must seem all the more progressive today that Smith logically extends the division of labour to intellectual pursuits and emphasises a dramatic increase in knowledge, which ultimately benefits society as a whole.

At the same time, it is surprising that Smith, at a time of great differences in social status, also emphasises the biological similarity of people. One can hardly imagine a society in which the differences between the educated and the uneducated, and thus between the wealthy and the poor, were more pronounced. So pronounced, in fact, that many contemporaries considered these differences to be God-given, natural and inevitable. Smith, however, in an approach that seems very modern to us today, derives the differences in occupations and thus social position solely from education and activity. For him, people are equal by nature, and he thus represents an egalitarian approach that certainly seemed suspect to some of his contemporaries.

> The difference of natural talents in different men is, in reality, much less than we are aware of; and the very different genius which appears to distinguish men of different professions, when grown up to maturity, is not upon many occasions so much the cause as the effect of the division of labour. The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature as from habit, custom, and education. When they came into the world, and for the first six or eight years of their existence, they were perhaps very much alike, and neither their parents nor playfellows could perceive any remarkable difference. About that age, or

> soon after, they come to be employed in very different occupations. The difference of talents comes then to be taken notice of, and widens by degrees, till at last the vanity of the philosopher is willing to acknowledge scarce any resemblance. (I.ii, 4)

And because Smith, in his inimitable style ends an extensive theoretical exposition with a striking concluding formula that once again summarises what has already been said—he concludes by outlining the equality of all men as follows:

> By nature a philosopher is not in genius and disposition half so different from a street porter, as a mastiff is from a greyhound, or a greyhound from a spaniel, or this last from a shepherd's dog. Those different tribes of animals, however, though all of the same species, are of scarce any use to one another. The strength of the mastiff is not, in the least, supported either by the swiftness of the greyhound, or by the sagacity of the spaniel, or by the docility of the shepherd's dog. (I.ii, 5)

It seems remarkable that the fundamental question of the nature of mankind and the role of education is taken up here whether people are formed by nature, natural disposition, or by nurture, upbringing, education and social environment. This question, which features prominently in Shakespeare's *The Tempest*, cannot be answered conclusively as Smith shows with his memorable comparison, which has lost none of its relevance since it is echoed, for instance, in Tom Stoppard's play *Acrobats*.

In *The Wealth of Nations*, however, Smith not only explores the question of human nature, but provides a comprehensive analysis of the mechanisms that increase the wealth of nations.

Questions

How does the chapter describe the social, cultural, and economic context of the eighteenth century, particularly regarding the dominance of a wealthy male elite?

How did some of the influential philosophical figures who shaped Adam Smith's intellectual development contribute to his works?

Please outline Adam Smith's biography very briefly and explain its influence on his major philosophical works?

What role did Adam Smith play as a tutor on the Grand Tour, and how did his experiences shape his view on education?

In what ways did Adam Smith actively engage with intellectual circles and how did this influence his interdisciplinary approach?

How does the chapter position Adam Smith in the context of a long debate—in literature and philosophy—on the nature of mankind, in particular on self-love?

What does Adam Smith advocate as the basis of social and economic prosperity, and how does he argue for the importance of moderation and self-interest?

How does Adam Smith view the division of labour in intellectual pursuits, and what benefits does he associate with specialisation?

What is Adam Smith's perspective on the equality of individuals, and how does he contrast this with the social disparities of his time?

How does Adam Smith's analysis in "*The Wealth of Nations*" encompass not only economic mechanisms but also reflections on human nature, education, and social organization?

The Division of Labour

Abstract Adam Smith's "*The Wealth of Nations*" begins with a discussion on the division of labour, emphasizing its central role in economic growth by increasing productivity. Smith meticulously examines the factors contributing to enhanced productivity through specialisation, using the by now famous example of pin production to illustrate his points.

Pins are prototypical domestic products, mainly used in the home. They are cheap and ubiquitous objects that can be used by men and women, children and the old, by skilled and unskilled workers. By focussing on small and inexpensive objects like pins, Smith manages to convey the immense economic potential of the division of labour, which is by no means limited to large-scale production. Neither does it require complex or expensive machinery to produce pins in large quantities, and Smith portrays the fundamental principle of the division of labour as an omnipresent process active in all areas of life. It significantly influences and shapes how individuals cooperate in society, thereby forming one of the foundations of modern society.

He argues that the division of labour not only benefits individuals by improving their own situations but also leads to overall prosperity for the region and the entire nation. Smith discusses the economic conditions necessary for individuals to benefit from the division of labour, highlighting the importance of start-up capital. He also acknowledges the natural limits to the expansion of the division of labour, such as market size and infrastructure, especially the role of transportation. He also introduces, in later chapters of "*The Wealth of Nations*," a discussion of the potential dangers of routine work on workers.

Smith asserts that the division of labour remains crucial for economic success and outlines its historical development and implications for trade and transportation, from his time to the present time of globalisation.

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_3

Smith begins *The Wealth of Nations* with a discussion of the division of labour, signalling that the division of labour occupies an important position in his economic philosophy. In the very first sentence he states that the division of labour represents the central concern of a growing economy because it increases productivity:

> The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is anywhere directed, or applied, seem to have been the effects of the division of labour. (I.i, 1)

If the concept of the division of labour was not new in Smith's time, the analysis that now follows is so well constructed and convincingly argued that the beginning of *The Wealth of Nations* became a classic description of economic activity on the basis of empirical observation. Smith develops the three factors that he sees as leading to increased productivity through the division of labour:

> This great increase of the quantity of work which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three different circumstances; first, to the increase of dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many. (I.i, 5)

Three auxiliary functions, skill, time-saving and technological development make an increase in labour possible through the division of labour. And with his statement on the increase in productivity he also signals that his is a dynamic picture of society based on further development. He leaves no doubt that he is concerned with the precise investigation of the mechanisms that make the realisation of these "productive forces of labour" possible.

However, because the illustration of a complex process is easier if it is presented by means of a real-life example, Smith chooses a small workshop to show how the division of labour operates. The workers, the place of production and the end-product are unspectacular and it is the observation of a mundane process that makes Smith's analysis so convincing. For what follows is the now famous depiction of the production processes required to make a single pin.

> To take an example, therefore, from a very trifling manufacture; but one in which the division of labour has been very often taken notice of, the trade of the pin-maker; a workman not educated to this business (which the division of labour has rendered a distinct trade), nor acquainted with the use of the machinery employed in it (to the invention of which the same division of labour has probably given occasion), could scarce, perhaps, with his utmost industry, make one pin in a day, and certainly could not make twenty. (I.i, 3)

The reader's horizon of expectation is marked out—a single worker who sets out to work alone will not be a successful producer of pins.

> But in the way in which this business is now carried on, not only the whole work is a peculiar trade, but it is divided into a number of branches, of which the greater part are likewise peculiar trades. One man draws out the wire, another straights it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving, the head; to make the head requires two or three distinct operations; to put it on is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner, divided into about eighteen distinct operations, which, in some manu-

> factories, are all performed by distinct hands, though in others the same man will sometimes perform two or three of them. I have seen a small manufactory of this kind where ten men only were employed, and where some of them consequently performed two or three distinct operations. (I.i, 3)

Specialisation and the use of specialised tools or machinery lead to a dramatic improvement in production output. Smith states at the beginning of the passage that a diligent worker can hardly produce 20 pins if he is not familiar with the specific process of production. But the division of labour, as applied in the small workshop, allows for the surprising output produced by ten workers:

> But though they were very poor, and therefore but indifferently accommodated with the necessary machinery, they could, when they exerted themselves, make among them about twelve pounds of pins in a day. There are in a pound upwards of four thousand pins of a middling size. Those ten persons, therefore, could make among them upwards of forty-eight thousand pins in a day. Each person, therefore, making a tenth part of forty-eight thousand pins, might be considered as making four thousand eight hundred pins in a day. But if they had all wrought separately and independently, and without any of them having been educated to this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin in a day; that is, certainly, not the two hundred and fortieth, perhaps not the four thousand eight hundredth part of what they are at present capable of performing, in consequence of a proper division and combination of their different operations. (I.i, 3)

It is no coincidence that the example of pin production has become so famous. This small, everyday object is not only familiar to every reader, but as a consumer one does not usually give much thought to its production. Smith convincingly shows the full significance of a dramatically increased production volume. No reader can ever use a pin again without thinking of *The Wealth of Nations*—Smith clearly knows how to demonstrate the principles of the division of labour convincingly.

He shows that through the division of labour people are able to produce more than they need to live. Each individual does this out of a self-interest that is both morally and economically legitimate, with the intention of improving their own situation. Without intending to do so the increase in production brought about by the division of labour leads to an increase in the prosperity of the whole country—provided that every person thinks and acts in this way:

> It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people. Every workman has a great quantity of his own work to dispose of beyond what he himself has occasion for; and every other workman being exactly in the same situation, he is enabled to exchange a great quantity of his own goods for a great quantity, or, what comes to the same thing, for the price of a great quantity of theirs. He supplies them abundantly with what they have occasion for, and they accommodate him as amply with what he has occasion for, and a general plenty diffuses itself through all the different ranks of the society. (I.i, 10)

The functioning market, which is abundantly fed by goods produced by the division of labour, produces general prosperity seemingly by itself, as Smith shows. This is based on the tremendous increase of production in all trades brought about by the division of labour. The clarification of this principle, that the division of labour is to

be regarded as the source of the wealth of nations, lies at the heart of Smith's thinking.

An important next step for mass production is the development and use of complex machines. For on the one hand, the division of labour presupposes the use of such devices, and on the other, their use often leads to new inventions. The division of labour thus indirectly promotes technical progress. Smith shows how much recourse was made to the cooperation of skilled workers even in the early stages of production. These workers were able to assess exactly what the requirements of their devices and often increasingly complex machines were.

> A great part of the machines made use of in those manufactures in which labour is most subdivided, were originally the inventions of common workmen, who, being each of them employed in some very simple operation, naturally turned their thoughts towards finding out easier and readier methods of performing it. Whoever has been much accustomed to visit such manufactures must frequently have been shown very pretty machines, which were the inventions of such workmen in order to facilitate and quicken their particular part of the work. In the first fire-engines, a boy was constantly employed to open and shut alternately the communication between the boiler and the cylinder, according as the piston either ascended or descended. One of those boys, who loved to play with his companions, observed that, by tying a string from the handle of the valve which opened this communication to another part of the machine, the valve would open and shut without his assistance, and leave him at liberty to divert himself with his playfellows. One of the greatest improvements that has been made upon this machine, since it was first invented, was in this manner the discovery of a boy who wanted to save his own labour. (I.i, 8)

Up to the present time of post-industrialisation with a highly specialised mode of production the principle has hardly changed that those who operate machines usually know them best in their functional processes and are best suited improve them. The bonuses paid by industry to resourceful workers illustrate that the process described by Smith in *The Wealth of Nations* is still valid in the digital era.

In the first book of *The Wealth of Nations* Smith points to the central importance, from an economic point of view, of the division of labour in increasing productivity and he shows that a reduction in the number of operations is accompanied by a marked increase in the quantity of final products. However, Smith does not discuss the social and psychological consequences of the division of labour in this first book. Although he is familiar with the first forms of mechanisation in the age of industrialisation, he cannot yet foresee the excesses of assembly line production propagated by Henry Ford at the beginning of the twentieth century. Therefore, in the first book Smith concentrates exclusively on describing the economic effects of the division of labour.

This has been criticised by later critics who believed that Smith might have been indifferent to the fate of ordinary workers. In the fifth book of *The Wealth of Nations*, however, Smith expressly focuses on the plight of routine work in an industrialized setting when, in a very long chapter, he talks about "expenditure on educational institutions for the young." One might almost suspect that Smith's critics might not have read *The Wealth of Nations* in its entirety, otherwise they could not have missed this central statement about the "labouring poor."

> In the progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations, frequently to one or two. But the understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations, of which the effects are perhaps always the same, or very nearly the same, has no occasion to exert his understanding or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country he is altogether incapable of judging […]. It corrupts even the activity of his body, and renders him incapable of exerting his strength with vigour and perseverance in any other employment than that to which he has been bred. His dexterity at his own particular trade seems, in this manner, to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilised society this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it. (V.i.f, 50)

One cannot phrase a modern critique of civilisation more precisely and Smith's discussion clearly outlines the harmful effects of a form of employment that leads to becoming "as stupid and ignorant as it is possible for a human creature to become." In this passage, Smith primarily has in mind a decline in defence capability in times of war when he emphasises the danger of physical and mental lethargy. At the same time, like Locke, he refers to the Enlightenment and the idea of the value of a good education and heightened critical faculties, which are basic prerequisites for any mature citizen. Thus, Smith conveys a thoroughly differentiated, often even very sceptical picture of work in his text, and it is only due to the scope and overall structure of *The Wealth of Nations* that sometimes what belongs together thematically does not stand together.

Smith adds two more aspects to his economic account of the division of labour: on the one hand, he outlines the basic economic condition that must be fulfilled for individuals to benefit from the division of labour in the first place. And secondly, Smith describes possible limits and restrictions to the division of labour. One of the most important prerequisites for the use of production processes based on the division of labour is start-up capital, because this is the only way to accumulate stocks necessary for employing a large workforce for processes based on the division of labour.

> As soon as stock has accumulated in the hands of particular persons, some of them will naturally employ it in setting to work industrious people, whom they will supply with materials and subsistence, in order to make a profit by the sale of their work, or by what their labour adds to the value of the materials. (I.vi, 5)

This aspect is crucial for the division of labour, because only through the accumulation of capital can further specialisation take place and Smith emphasises that it is the indispensable basic prerequisite for a functioning division of labour. For, as he makes clear in *The Wealth of Nations*, only if capital has already been accumulated in advance of production can individuals concentrate on their specialisation.

> But when the division of labour has once been thoroughly introduced, the produce of a man's own labour can supply but a very small part of his occasional wants. The far greater part of them are supplied by the produce of other men's labour, which he purchases with the produce, or, what is the same thing, with the price of the produce of his own. But this purchase cannot be made till such time as the produce of his own labour has not only been completed but sold. A stock of goods of different kinds, therefore, must be stored up somewhere sufficient to maintain him, and to supply him with the materials and tools of his work till such time, at least, as both these events can be brought about. A weaver cannot apply himself entirely to his peculiar business, unless there is beforehand stored up somewhere, either in his own possession or in that of some other person, a stock sufficient to maintain him, and to supply him with the materials and tools of his work, till he has not only completed, but sold his web. This accumulation must, evidently, be previous to his applying his industry for so long a time to such a peculiar business. (II, 2)

The central insight, which was not new even in Smith's time, is that very often initial capital is indispensable for the functioning of the division of labour. The individual must "accumulate a stock of various goods which will supply him with raw materials and tools for his work and from which he can live at least until the good is produced and sold." The division of labour is thus not a spontaneous process but presupposes the fulfilment of a basic economic condition for the individual. And the more initial capital is formed, the more refined can be the occupational specialisation into ever more elaborate processes of division of labour.

At the same time, Smith observes that in his time there are natural limits to the possible expansion of the division of labour. Geographic limits are imposed, for example, by the size of the market. If a market is small, it limits the spectrum of goods that can be exchanged, and a highly specialised division of labour is not tenable.

> As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market. When the market is very small, no person can have any encouragement to dedicate himself entirely to one employment, for want of the power to exchange all that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for. (I.iii, 1)

There are various ways to increase the market. And it is in this area that probably the clearest reference to a changing world over the last 250 years can be found. Smith sees that a central criterion for enlarging the market is a functioning infrastructure. This depends first and foremost on an effective system of conveying goods which must make use of fast, reliable and inexpensive means of transport and transport routes. Particularly well-developed routes enlarge the market, although at Smith's time only the waterways permitted cost-effective shipping.

> As by means of water-carriage a more extensive market is opened to every sort of industry than what land-carriage alone can afford it, so it is upon the sea-coast, and along the banks of navigable rivers, that industry of every kind naturally begins to subdivide and improve itself, and it is frequently not till a long time after that those improvements extend themselves to the inland parts of the country. A broad-wheeled waggon, attended by two men, and drawn by eight horses, in about six weeks' time carries and brings back between London and Edinburgh near four ton weight of goods. In about the same time a ship navigated by six or eight men, and sailing between the ports of London and Leith, frequently

> carries and brings back two hundred ton weight of goods. Six or eight men, therefore, by the help of water-carriage, can carry and bring back in the same time the same quantity of goods between London and Edinburgh, as fifty broad-wheeled waggons, attended by a hundred men, and drawn by four hundred horses. Upon two hundred tons of goods, therefore, carried by the cheapest land-carriage from London to Edinburgh, there must be charged the maintenance of a hundred men for three weeks, and both the maintenance, and, what is nearly equal to the maintenance, the wear and tear of four hundred horses as well as of fifty great waggons. (I.iii, 3)

Here, as often in *The Wealth of Nations*, Smith provides concrete, verifiable data to support his argument. This data serves to clarify and empirically back up his statements and also allows for historical and cultural observations on the development of Great Britain.

In Smith's time only the waterway was available for transporting bulk goods, while luxury goods of low weight and small volume could also be brought to other regions by slow cart and, very rarely, by coach. It was not until the nineteenth century that railways appeared on the scene and other forms of modern transportation were available which today convey goods around the world quickly and cheaply. Freight was transported by ship or, laboriously, expensively, unsafely and very, very slowly, across the land on bumpy country roads. England, as a seafaring nation, had already passed a Navigation Act in 1651 which underlined the special role of English ships as the most important means of traffic and transport. Moreover, Smith sees himself confirmed by a recent observation frequently discussed during his time: The history of the successful settlement of America along the East Coast proves him right in his assessment of the great importance of waterways and transportation by ship.

Today in the age of globalisation the size of a country and the place of production play a subordinate role only, because the division of labour is no longer restricted by the physical size of the market in the modern mobile society. This does not render Smith's statement invalid, but it can be transferred to the international division of labour. Only in the case of person-related services, such as those provided by hairdressers, doctors or the cleaning trade for instance, are spatial boundaries still present today and limit exchange.

The economic prerequisite for the growing prosperity of a nation thus lies in the division of labour primarily, despite possible limitations due to the size of the given market and/or country. Smith convincingly presents the economic and social conditions that account for the great productive success of manufacturing processes based on the division of labour. In doing so, he demonstrates the enormous possibilities of increasing production. However, the philosopher Smith also provides an interpretation of the motive for the emergence of the division of labour, which he sees deeply rooted in human nature.

Questions

What is one central focus of Adam Smith's economic philosophy as outlined in "*The Wealth of Nations*"?

How does Adam Smith illustrate the concept of the division of labour using the example of pin production?

What are the three factors identified by Adam Smith that contribute to increased productivity through the division of labour?

How does Adam Smith argue that specialisation benefits both individuals and society as a whole?

Why does Adam Smith emphasise the importance of start-up capital in facilitating the division of labour?

What natural limits does Adam Smith identify to the expansion of the division of labour?

How does Adam Smith suggest that infrastructure, particularly transportation, impacts the size of the market and the division of labour?

How does Adam Smith's discussion of transportation methods in his time compare to modern modes of transportation?

In what ways does Adam Smith's analysis of the division of labour remain relevant in today's globalised economy, and how does he describe the effect of routine work on the individual?

What insights does Adam Smith provide into the motives behind the emergence of the division of labour, and how does he connect it to human nature?

Disposition to Truck and Barter

Abstract Smith explores the emergence and significance of the division of labour in "*The Wealth of Nations*," attributing it to inherent human tendencies to exchange goods and services as a manifestation of the trucking disposition that allows mankind to live in a society that flourishes through specialisation. He argues that exchange is a fundamental aspect of human nature, enabling the development of skills and through that, social and economic progress. Smith discusses the role of exchange in all social classes, highlighting its importance even for traditionally marginalized groups like beggars who were considered not to be participants in economic processes. Furthermore, he examines the criteria for evaluating goods and services based on historical observation and highlights the importance of labour to measure equivalence for economic transactions. He emphasises the need for a common standard for exchange transactions and discusses the factors influencing the perceived value of labour and commodities.

In this context he discusses the significance of exchange—treaty, barter, and purchase—and he discusses the development of money in facilitating economic transactions. He examines the challenges of finding suitable exchange partners, valuing goods, and ensuring divisibility for effective exchanges. Smith's illustrations of economic transactions are chosen from an agrarian context of small-scale farming to highlight the importance of the early adoption of a suitable means to facilitate exchange. Smith therefore traces the historical evolution of money from bartering to the adoption of metals, in particular gold and silver, and standardized coins. His discussion of the diminishing quantity of precious metals in coins illustrates his rather critical view of princes and sovereign states. Smith emphasises the role of money as a medium of exchange, as a commodity, and discusses its value in economic transactions so that his views come to exemplify the notion of the classical dichotomy.

Again, Smith the philosopher warns against the inadequacy of language in expressing complex economic concepts but uses well-known metaphors for circulation like the wheel to illustrate the function of money in facilitating economic circulation. His frequent references to a mechanistic world picture that uses the analogy of intricate clockwork not only takes up the discourse on navigation at the time but shows an awareness of the complexities of economic interaction that requires systematic analysis.

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_4

One possible explanation for the emergence of the division of labour is the simultaneous realisation by some members of a society that the division of labour is meaningful and productive. This insight would then be adopted by all people and consistently applied to all areas of life. Smith sees, however, that such developments are not based on purely rational behaviour; the division of labour occurs again and again under the most diverse circumstances and does not appear to be merely the productively implemented result of observation. Smith thinks it might have a different cause: For him, the reason for the division of labour is already inherent in human nature, namely in the innate tendency to exchange goods, to truck and barter. The division of labour, he argues, arises "necessarily, though slowly and gradually, from a natural inclination of man to trade and exchange things for one another." A person's natural inclination to "exchange things" provides them with everything they need by deliberating the respective advantages and disadvantages.

> As it is by treaty, by barter, and by purchase that we obtain from one another the greater part of those mutual good offices which we stand in need of, so it is this same trucking disposition which originally gives occasion to the division of labour. (I.ii, 3)

The logic of this argument is convincing. Humans are fundamentally capable of recognising the value of an object or a service. This is the basic prerequisite for exchange. And the principle of exchange makes specialisation possible, because only when products or services are exchanged can a society develop in which everyone no longer has to produce everything for themselves.

All social classes are affected by this phenomenon. It is immediately obvious to every reader of *The Wealth of Nations* that the entrepreneur accumulates wealth through the exchange of goods. The worker also exchanges labour and specialised knowledge for wages. Surprisingly, Smith notes that even those social groups that are traditionally seen as outsiders and that, according to popular opinion, do not participate in economic life live from exchange. Smith explains that even beggars secure their existence through exchange which shows that without exchange no group in society can survive.

> Even a beggar does not depend upon it [charity] entirely. The charity of well-disposed people, indeed, supplies him with the whole fund of his subsistence. But though this principle ultimately provides him with all the necessaries of life which he has occasion for, it neither does nor can provide him with them as he has occasion for them. The greater part of his occasional wants are supplied in the same manner as those of other people, by treaty, by barter, and by purchase. With the money which one man gives him he purchases food. The old clothes which another bestows upon him he exchanges for other old clothes which suit him better, or for lodging, or for food, or for money, with which he can buy either food, clothes, or lodging, as he has occasion. (I.ii, 2)

Smith considers the ability to make such socially and economically motivated arrangements to be a purely human characteristic, because to truck and barter is a natural human disposition. The ability to exchange goods and services is thus a characteristic that seems unthinkable in the animal world and is never observed, as Smith subsequently adds by way of explanation.

> It is common to all men, and to be found in no other race of animals, which seem to know neither this nor any other species of contracts. Two greyhounds, in running down the same hare, have sometimes the appearance of acting in some sort of concert. Each turns her towards his companion, or endeavours to intercept her when his companion turns her towards himself. This, however, is not the effect of any contract, but of the accidental concurrence of their passions in the same object at that particular time. Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog. Nobody ever saw one animal by its gestures and natural cries signify to another, this is mine, that yours; I am willing to give this for that. (I.ii, 2)

According to Smith's observations, only humans have the natural inclination to evaluate and exchange goods. It goes together with two other exclusively human characteristics whose close connection with each other would allow interesting conclusions about the nature of human beings, although Smith only hints at them briefly:

> Whether this propensity be one of those original principles in human nature of which no further account can be given; or whether, as seems more probable, it be the necessary consequence of the faculties of reason and speech, it belongs not to our present subject to inquire. (I.ii, 2)

In his reflections in *The Wealth of Nations* Smith does not explore the connection between thought, speech and social interaction in detail, but focuses on the specific individual and social conditions that must be present as prerequisites for the ability to truck and barter to function. Thus, the capability to estimate values (imagined or true) and to pursue one's own advantage, even indirectly, requires methods and procedures based on principles of exchange that have evolved over time. Smith shows that the objects, products, and services to be exchanged must be comparable. He therefore looks for a way to ensure such comparability and, for him, the amount of labour expended to produce a product is a suitable measure. Thus, the value measure "labour" enables the valuation of exchange transactions.

> The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of all commodities. (I.v, 1)

However, Smith does not overlook the fact that differences in labour in terms of quality, difficulty or ingenuity must have consequences for the value of an object.

> In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. If among a nation of hunters, for example, it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer. It is natural that what is usually the produce of two days' or two hours' labour, should be worth double of what is usually the produce of one day's or one hour's labour. (I.vi, 1)

If one job requires more effort or skill than another, this must be taken into account in some form in the exchange. However, the ratio of two different amounts of work

is difficult to determine, because it is hardly possible to adequately compare physical and mental efforts.

> There may be more labour in an hour's hard work than in two hours' easy business; or in an hour's application to a trade which it cost ten years' labour to learn, than in a month's industry at an ordinary and obvious employment. But it is not easy to find any accurate measure either of hardship or ingenuity. In exchanging, indeed, the different productions of different sorts of labour for one another, some allowance is commonly made for both. (I.v, 4)

The value of labour taken as a basis by Smith in the beginning of *The Wealth of Nations* only applies in the original state of the exchange economy, because at "the lowest stage of development the entire yield of labour belongs to the labourer." However, the more advanced and thus more complicated society becomes, the more factors come into play. In more developed economies, Smith sees that the contributions of capital and land must be added to the labour input to determine the value of goods.

> In this state of things, the whole produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock which employs him. Neither is the quantity of labour commonly employed in acquiring or producing any commodity, the only circumstance which can regulate the quantity which it ought commonly to purchase, command, or exchange for. An additional quantity, it is evident, must be due for the profits of the stock which advanced the wages and furnished the materials of that labour. (I.vi, 7)

For not only the worker who does the work, but also the entrepreneur who provides his capital and labour as the manager of the enterprise wants to be remunerated. Since both the worker and the entrepreneur expect to gain from their investment of labour and capital, respectively, a complex process of evaluation and comparison sets in.

> In exchanging the complete manufacture either for money, for labour, or for other goods, over and above what may be sufficient to pay the price of the materials, and the wages of the workmen, something must be given for the profits of the undertaker of the work who hazards his stock in this adventure. The value which the workmen add to the materials, therefore, resolves itself in this ease into two parts, of which the one pays their wages, the other the profits of their employer upon the whole stock of materials and wages which he advanced. He could have no interest to employ them, unless he expected from the sale of their work something more than what was sufficient to replace his stock to him; and he could have no interest to employ a great stock rather than a small one, unless his profits were to bear some proportion to the extent of his stock. (I.vi, 5)

However, a complex economic relationship between the price of materials and the wages of workers as well as the degree of processing that goes into a product determines the profit of a particular manufacture.

> As any particular commodity comes to be more manufactured, that part of the price which resolves itself into wages and profit comes to be greater in proportion to that which resolves itself into rent. In the progress of the manufacture, not only the number of profits increase, but every subsequent profit is greater than the foregoing; because the capital from which it is derived must always be greater. The capital which employs the weavers, for example, must be greater than that which employs the spinners; because it not only replaces that capi-

> tal with its profits, but pays, besides, the wages of the weavers; and the profits must always bear some proportion to the capital. (I.vi, 14)

For Smith, the value of the commodity thus corresponds to its cost of production: the wage for the work performed, the rent for the use of land and the profit for the capital invested. This price of a commodity must therefore more or less satisfy all sections of the population, i.e. be acceptable to workers, entrepreneurs and landowners.

Smith distinguishes the "value in use" of a product from the "value in exchange." This distinction goes back to Aristotle's famous discussion of a shoe, when in his *Politics* he differentiates between the exchange value and the use value. Smith refers to these considerations of Aristotle and introduces them into his theory. The value in use expresses the objective usefulness—however defined—of an object, while the value in exchange describes the property of goods to serve as means of exchange with other goods.

> The one may be called 'value in use;' the other, 'value in exchange.' The things which have the greatest value in use have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water: but it will purchase scarce anything; scarce anything can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it. (I.iv, 13)

The value in exchange is determined in *The Wealth of Nations* by an object's scarcity; therefore it always remains relative and related to a reference point which may change. This therefore always raises the question of the value of goods. Smith examines the determinants of economic value and seeks a suitable standard for exchange transactions. Again, he assumes that there are such things as "natural rules" by which exchanges are or should be governed. As is so often the case in *The Wealth of Nations*, the adjective "natural" shows that these are overriding rules, rules that humans must abide by, rules that already exist in some form. These rules, which govern the exchange of commodity for money or goods, are central to Smith.

> What are the rules which men naturally observe in exchanging them either for money or for one another, I shall now proceed to examine. These rules determine what may be called the relative or exchangeable value of goods. (I.iv, 12)

When the division of labour has become established in a society, people are dependent on transactions of exchange in order to participate in everyday life. To do this, they need a common means of comparison and exchange that allows any good to be given or received for it proportionately.

> But when the division of labour first began to take place, this power of exchanging must frequently have been very much clogged and embarrassed in its operations. One man, we shall suppose, has more of a certain commodity than he himself has occasion for, while another has less. The former consequently would be glad to dispose of, and the latter to purchase, a part of this superfluity. But if this latter should chance to have nothing that the former stands in need of, no exchange can be made between them. The butcher has more meat in his shop than he himself can consume, and the brewer and the baker would each of them be willing to purchase a part of it. But they have nothing to offer in exchange, except the different productions of their respective trades, and the butcher is already provided with

> all the bread and beer which he has immediate occasion for. No exchange can, in this case, be made between them. He cannot be their merchant, nor they his customers; and they are all of them thus mutually less serviceable to one another. (I.iv, 2)

As Smith shows, finding suitable exchange partners for specific commodities is not always easy. On the one hand, the one who offers must find someone who wants what is being offered and, in the case of direct exchange, simultaneously offers what is sought, or, in the case of indirect exchange, they must find another, third exchange partner. On the other hand, there are difficulties in evaluating individual goods to be exchanged. In addition, correspondences of values have to be worked out. And last but not least a good to be exchanged must be as easily divisible as possible. For someone who needs shoes or a dozen eggs but has a cow to offer in exchange, is confronted with a problem that brings the idea of exchange to the limits of what is practicable.

In order to avoid such problems, goods must be selected that are in themselves suitable means of exchange. Smith explains that in early times cattle was the usual medium of exchange. But salt and stockfish, hides or tanned leather were also used. A decisive step was taken when metals were preferred to all other goods as a means of exchange, from which money later developed. Therefore, in a more developed society, whose economic system is based on the principle of exchange, money is the medium of exchange. Smith, to the irritation of the reader, explains the workings of money at various points in *The Wealth of Nations*. First, he explains the immense advantages that developed through the use of money. The starting point was metals, which won out over every other medium of exchange at a very early stage.

> Metals can not only be kept with as little loss as any other commodity, scarce anything being less perishable than they are, but they can likewise, without any loss, be divided into any number of parts, as by fusion those parts can easily be reunited again; a quality which no other equally durable commodities possess, and which more than any other quality renders them fit to be the instruments of commerce and circulation. (I.iv, 4)

These arguments are immediately obvious, and when one considers the next logical step, Smith's account is not surprising, for coins developed from the use of metals, guaranteeing weight and fineness through minting and stamping.

> The inconveniency and difficulty of weighing those metals with exactness gave occasion to the institution of coins, of which the stamp, covering entirely both sides of the piece and sometimes the edges too, was supposed to ascertain not only the fineness, but the weight of the metal. Such coins, therefore, were received by tale as at present, without the trouble of weighing. (I.iv, 9)

Through the introduction of money by a recognized authority in the form of standardized metal coins, money becomes the commodity that is exchanged for other commodities.

> Every commodity, besides, is more frequently exchanged for, and thereby compared with, other commodities than with labour. It is more natural, therefore, to estimate its exchangeable value by the quantity of some other commodity than by that of the labour which it can purchase. (I.v, 5)

But the value of money can change. In Smith's time, it depended on the value of gold and silver. It was the discovery of new gold and silver mines in America, for example, that led to a fall in the price of these precious metals. Also, throughout history, the gold and silver content of coins with the same denomination was changed.

> Princes and sovereign states have frequently fancied that they had a temporary interest to diminish the quantity of pure metal contained in their coins; but they seldom have fancied that they had any to augment it. The quantity of metal contained in the coins, I believe of all nations, has, accordingly, been almost continually diminishing, and hardly ever augmenting. (I.v, 11)

In Smith's historical account of the development of money, it becomes clear what criteria must be met in order to develop a functioning exchange economy. Smith's discussion is not primarily concerned with tracing a history of coinage. Rather, after clarifying the question of how money came about, he discusses the value of goods and services. But since this economic value is always measured in money, it is essential that Smith determines the precise status of this important "third commodity." For in indirect exchanges where the respective goods were no longer exchanged directly, money soon developed from a mere proxy medium to a commodity in itself.

> But when barter ceases, and money has become the common instrument of commerce, every particular commodity is more frequently exchanged for money than for any other commodity. The butcher seldom carries his beef or his mutton to the baker, or the brewer, in order to exchange them for bread or for beer; but he carries them to the market, where he exchanges them for money, and afterwards exchanges that money for bread and for beer. The quantity of money which he gets for them regulates, too, the quantity of bread and beer which he can afterwards purchase. It is more natural and obvious to him, therefore, to estimate their value by the quantity of money, the commodity for which he immediately exchanges them, than by that of bread and beer, the commodities for which he can exchange them only by the intervention of another commodity […]. (I.v, 6)

The value of a product is indeed measured according to the amount of money paid for it, and no longer according to the value of the commodities "for which he can exchange it only through the interposition of another commodity, that is, only indirectly," so that money remains merely a tool that facilitates the underlying economic processes. According to Smith money remains without influence on economic transactions and has, as it were, an auxiliary function only that makes possible the exchange of goods. The strict separation into a goods economy and a monetary part, the so-called classical dichotomy, is the salient feature of classical economic analysis, which goes back to Smith.

> The great wheel of circulation [of money] is altogether different from the goods which are circulated by means of it. The revenue of the society consists altogether in those goods, and not in the wheel which circulates them. In computing either the gross or the net revenue of any society, we must always, from their whole annual circulation of money and goods, deduct the whole value of the money, of which not a single farthing can ever make any part of either. It is the ambiguity of language only which can make this proposition appear either doubtful or paradoxical. When properly explained and understood, it is almost self-evident. (II.ii, 14–15)

At this point, Smith explicitly warns his readers of the inadequacy of language and refers to the problem of mediation in complex contexts. Philosophy in particular is repeatedly confronted with the problem that language is not capable of adequately expressing what is actually meant to be said and Smith, in the spirit of the Royal Society, optimistically argues for economic philosophy that problems can be communicated "as soon as they are explained precisely." For him language is not fundamentally inadequate and metaphorical speech fulfils an important function in the process of mediation. Here follows another example of his metaphor for money: he uses the same phrase as above to emphasize its pivotal role.

> Money, therefore, the great wheel of circulation, the great instrument of commerce, like all other instruments of trade, though it makes a part and a very valuable part of the capital, makes no part of the revenue of the society to which it belongs; and though the metal pieces of which it is composed, in the course of their annual circulation, distribute to every man the revenue which properly belongs to him, they make themselves no part of that revenue. (II.ii, 23)

Smith here uses the image of the wheel to explain the function of money. In this way he clarifies abstract connections and draws on metaphors used in contemporary literature. Everything in society is based on the principle of circulation, since the human body was seen to serve as one model for other phenomena observable in nature. This idea was popular in the eighteenth century and Smith never tires of taking it up at every available opportunity and to use it as an illustration.

Thus, he speaks of the "great circle of European commerce," "circulating capital" and finally of the "highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself not a single pile of either." He adds a metaphor from mechanics to the image of a closed system by talking about "the machines and instruments of trade […] which […] bear this further resemblance to that part of the circulating capital." In this way, he again resorts to popular methods of illustrating the structure of the world as a complex machine or as mechanical instrument, as clockwork. Money, according to Smith, is like a flywheel in a machine that regulates the economic cycle and thus becomes the most important tool of trade, its driving force. In this context the entire universe can be imagined as a machine governed by cause and effect.

Isaac Newton had paved the way with his explanatory models of the world as a mechanism that, in the positivist sense, can at one point be understood completely. And the authors and thinkers of the eighteenth century enthusiastically took up the idea of the world as a machine, preferably as a clock or even better a watch, for here they saw an approach to relating the manifold recognisable interactions to one another in a meaningful way, just like clockwork. Jonathan Swift's novel *Gulliver's Travels* famously depicts a watch—Gulliver "called it his oracle, and said, it pointed out the time for every action of his life"—and the inhabitants of the island of Lilliput are duly impressed by the ticking mechanism. Smith and his contemporaries were fascinated by clockwork; not only were watches indispensable instruments for navigation and secured Britain a manifest advantage on the high seas when reliable time pieces were introduced to ascertain the exact position of a vessel on the high seas,

but the intricate mechanical interplay of the parts of a watch had a captivating aesthetic quality in itself.

> The first invention of such beautiful machines, indeed, and even that of some of the instruments employed in making them, must, no doubt, have been the work of deep thought and long time, and may justly be considered as among the happiest efforts of human ingenuity. (I.x.c, 16)

Smith's image of the world as a machine which includes the great wheel of circulation echoes eighteenth-century thought and language, though he is far more cautious than many of his contemporaries in that whenever he resorts to metaphors to explain complex abstract processes, he highlights them as figurative language. With the mechanisms of exchange, however, that lead to a balance of interests between the participants, Smith presents the essential basic principles of the market economy that still determine modern economic life. The decisive factor in exchange is that the interests of those who offer goods and those who demand goods are balanced.

> It is adjusted, however, not by any accurate measure, but by the higgling and bargaining of the market, according to that sort of rough equality which, though not exact, is sufficient for carrying on the business of common life. (I.v, 4)

Questions

What explanation does Adam Smith offer for the emergence of the division of labour in societies?

How does Adam Smith argue that exchange is inherent in human nature?

In what ways does exchange benefit different social classes, according to Adam Smith?

How does Adam Smith distinguish between use value and exchange value?

What factors influence the exchange value of commodities, according to Adam Smith?

How does Adam Smith propose to establish a common standard for exchange transactions?

How does Adam Smith's discussion of exchange value reflect broader philosophical and economic principles in "*The Wealth of Nations*"?

How does Adam Smith explain the historical evolution of money from bartering to the adoption of metals as a medium of exchange?

What advantages did standardized coins offer in facilitating economic transactions, according to Adam Smith?

What is the classical dichotomy, and how does Adam Smith's analysis relate to it?

How does Adam Smith's discussion of the world as a machine reflect eighteenth-century thought and language?

What are the essential basic principles of the market economy that Adam Smith presents in his analysis of exchange?

Self-Interest and Natural Freedom

Abstract The chapter explores Smith's ideas on the human propensity for trade and self-interest as central elements of economic activity. Smith argues that economic behaviour is primarily motivated by self-interest rather than selflessness or benevolence. The famous phrase of "the butcher, the brewer, or the baker" highlights this point of view. A close reading of the phrase shows how readers are guided by the text to question the motives that lead to specialization and thus the division of labour as one of the pillars of a functioning and prosperous society. Every person's natural disposition to increase production through specialization lies in the human propensity to exchange goods and services.

Smith posits that self-interest, when tempered by social norms and regulations, contributes to the overall welfare of society through the mechanism of the division of labour and specialisation. He contends that self-interest is not inherently selfish but rather a natural expression of human nature that, when properly regulated, fosters economic growth and ultimately the wealth of a nation.

Smith employs the term "nature" to encompass various aspects of life such as natural liberty, natural law, and the inherent tendencies of human behaviour. He highlights the importance of natural freedom in fostering general prosperity, particularly focusing on the right of individuals to freely choose their place of residence and occupation without undue interference from authorities. In this Smith identifies one of the problems of government, when regulatory interference inhibits the free movement of individuals and thus hinders the free development of markets.

At the basis of every discussion in the context of human nature lies Smith's assumption that natural freedom forms the basis of human society. He criticises laws and institutions that restrict natural freedom, arguing that they impede economic growth and hinder the free circulation of labour and capital. He advocates for minimal government intervention in economic affairs, emphasizing the beneficial outcomes of allowing individuals to pursue their self-interest within a framework of natural freedom.

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_5

The human propensity to truck and barter, which makes the division of labour and thus specialisation possible and which, in Smith's thinking, is the cornerstone of the wealth of nations is not based on selflessness. No human being barters for the sole reason, says Smith, of giving pleasure to his fellow men. And few take up a highly specialised profession to improve the lot of mankind.

> But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and show them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. (I.ii, 2)

"Those good offices which we stand in need of" spring from a provider's self-love and self-interest. Self-love and self-interest, in turn, build on the capacity for exchange embedded in human nature. In Smith's view the reason for economic activity is rooted in everybody's self-interest, in the endeavour to primarily improve their own situation. The depiction of human beings acting in their own interest in *The Wealth of Nations* is therefore aimed at the question of whether one must be selfish in order to be successful in business, and what role self-interest plays in this. Smith thus takes up a debate that was conducted with particular commitment by the moral philosophers of the eighteenth century in which the significance of selflessness and benevolence, but also of competing attitudes such as selfishness or self-preservation, were often the subject of controversy. Teleological thinking in the eighteenth century sought to bring together individual self-interest and the society as a whole. Part of the basis for these reflections is therefore based on a close examination of the principle of human self-interest.

Self-interest in *The Wealth of Nations* means the natural and thus both morally and legally legitimate right to pursue one's own advantage. Crucially, however, this is not antisocial egoism; rather, self-interest seeks to satisfy the needs of the individual and to satisfy love for oneself without harming society as a whole. The intention of the economically thinking and acting human being is thus directed towards their own well-being, but at the same time avoids consciously and knowingly harming other human beings and also does not condone disadvantages for the immediate environment. Self-interest is thus regulated by the striving for social acceptance and compliance with socio-ethical norms, but also by laws, both written and unwritten, and not least by market competition. But individual morality and personal virtues also play a role in its regulation. The terms self-interest or self-love are used almost synonymously in *The Wealth of Nations*, because for Smith they have almost the same meaning. Therefore the term self-interest is used here as an overarching term for all those phenomena discussed in the text.

The definition of mitigated and therefore socially acceptable self-interest is found in probably the most famous passage of *The Wealth of Nations*, in which Smith discusses the principle of benevolence and thus inevitably comes to speak of people's behaviour in society:

> It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. (I.ii, 2)

It is immediately obvious that the interrelations between producers and consumers are far more complex than they might seem at first glance. For Smith first of all brings a psychological motive to the fore when everyone is supposed to emphasise their own advantage in dealing with other people. The implication is that everyone in modern society engages in transactions from which they hope to gain and benefit. It is thus quite clear that it is not egoistic selfishness only that makes society function, and it is certainly not the idea of taking advantage of business partners or other partners in exchange procedures that motivates people to act economically, but the idea of their own material security.

And material security, possibly an increase in wealth, is not always guaranteed if one acts purely out of charity or out of selfless goodwill towards one's fellow human beings. Smith clarifies in no uncertain terms that the baker does not bake bread out of pure love for his neighbour or out of a fundamental belief in human benevolence, but because in the course of the division of labour he has chosen a profession in which he can earn the greatest profit with the least or most pleasant effort for him. Talent and skill are the basic prerequisites for the successful pursuit of an occupation. And a special ability or inclination quite automatically leads to specialisation, which converts the division of labour into improved productivity for the good of the individual. Such an attitude is therefore not selfish, as Smith maintains, but entirely legitimate and even indispensable in a modern exchange society. It ultimately leads to the increase of the wealth of nations which benefits all people and is thus not morally reprehensible but a natural principle.

It is important to see that Smith does not choose the professions of butcher, brewer and baker at random. All three occupations produce food, basic and indispensable nourishment; none is associated with extreme wealth or the adoption of conspicuously selfish behaviour. Thus Smith's example is above reproach, as opposed to the motives one might expect from, say, a trader or merchant. On the contrary, professions such as butchers, brewers or bakers who produce essential goods are often assumed to do so out of some responsibility for the supply of the population and not primarily for their own advantage. And Smith the rhetorician knows that the alliterative line of "butcher, brewer, baker" will resonate with the reader, making the phrase easy to remember.

For Smith, however, it is self-evident that every human being, whether farmer or shopkeeper, labourer or entrepreneur, specialises in an occupation following the principle of the division of labour and thus puts their own supply and material security first in every activity. As historical observation shows, every person will naturally choose the occupation in which the greatest (material) success can be achieved.

> In a tribe of hunters or shepherds a particular person makes bows and arrows, for example, with more readiness and dexterity than any other. He frequently exchanges them for cattle or for venison with his companions; and he finds at last that he can in this manner get more cattle and venison than if he himself went to the field to catch them. From a regard to his

> own interest, therefore, the making of bows and arrows grows to be his chief business, and he becomes a sort of armourer. Another excels in making the frames and covers of their little huts or movable houses. He is accustomed to be of use in this way to his neighbours, who reward him in the same manner with cattle and with venison, till at last he finds it his interest to dedicate himself entirely to this employment, and to become a sort of house-carpenter. In the same manner a third becomes a smith or a brazier, a fourth a tanner or dresser of hides or skins, the principal part of the nothing of savages. And thus the certainty of being able to exchange all that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he may have occasion for, encourages every man to apply himself to a particular occupation, and to cultivate and bring to perfection whatever talent or genius he may possess for that particular species of business. (I.ii, 3)

Their personal advantage, the self-interest of the producer, is therefore nothing other than the expression of every person's natural disposition to exchange goods and services. The process of exchange leads to the division of labour and this in turn leads to specialisation and self-interest directed towards the well-being of one's own person can thus be interpreted as a productive necessity for the functioning of society.

For Smith, the principle of exchange is the engine of modern society and self-interest is an expression of human nature. Thus, in *The Wealth of Nations* the purified self-interest, the self-interest that is compatible with society and productively transformed, is not morally reprehensible. Smith is at pains to point out mechanisms that redirect individual interest to being beneficial to society as a whole.

> Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society. (IV.ii, 4)

A superficial reading of Smith's first book *The Theory of Moral Sentiments* may give the impression that Smith devotes himself primarily to the concepts of charity and selflessness. In this purely philosophical work, however, he develops a complex theory of sympathy using the term in a way that deviates from conventional usage: For him, sympathy is merely the imaginative ability to put oneself in the position of an other and is not necessarily synonymous with the modern sense of sympathy as compassion or affection. Some economists in the nineteenth century assumed that Smith was advocating selflessness as a social principle in *The Theory of Moral Sentiments*, but that he was championing unbridled egoism as the engine of a functioning economy in his later *The Wealth of Nations*. From this misunderstanding of his works, they devised the so-called Adam Smith problem, which has since been refuted. For in *The Wealth of Nations* Smith always assumes that people do not knowingly seek to deceive or harm others, but that within the framework of socially sanctioned norms, generally accepted rules of coexistence are constantly valid. This is why Smith points out that all those actions which seem to be primarily motivated by self-love and self-interest, in addition to securing the needs of the individual, might also have a positive effect on society in general.

Because of the complex structure of modern states this positive effect on society cannot be planned or even be foreseen by the individual who might act with the best of intentions. According to Smith, the mutually influencing mechanisms of modern society are too diverse for the individual to be able to plan in advance the consequences of each of their actions. This is especially true of business transactions, which might often have far-reaching consequences. Smith illustrates this phenomenon in the context of the discussion of the invisible hand, when effects become apparent which had not been anticipated or intended.

> Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. (IV.ii, 9)

Hereby Smith ascribes to self-interest a central role in the setup and functioning of society. It is not the completely selfless person which earlier generations of moral philosophers had demanded one should strive for, but the active participant in economic life that is the real motor of prosperity for all parties concerned. As long as self-centredness does not become pure egoism for people who try to enrich themselves at the expense of society or consciously accept disadvantages for others if this serves their own advantage, self-interest plays an important role in modern society. It is part of human nature.

Smith refers to the concept of "nature" rather frequently in *The Wealth of Nations*, but often in different ways. He speaks of the fruits of nature, human nature and natural law, he describes "the natural body" versus the political body, and he uses the adjective "natural" in combinations such as natural order, natural liberty, natural inclination and natural price. This multiplicity of meanings makes it difficult in some areas to gain a clear understanding of what the concept of "nature" really means for Smith, for nature is for Smith both a given object to be observed in real life, and an ideal. The difficulty of a precise conceptual definition of these two aspects can already be found in Plato, Aristotle and the Stoics. The idea of natural freedom is particularly important for the prosperity of a nation so that a close examination of all those passages in which Smith explains the basis of a liberal idea of society in more detail seems worthwhile.

He illustrates one form of natural liberty in his discussion of the right of settlement and shows how much the common people in England at his time have embraced the concepts of natural liberty and justice without knowing what they actually mean. Smith develops a theoretical model from the description of the historical development and the present state of affairs:

> To remove a man who has committed no misdemeanour from the parish where he chooses to reside is an evident violation of natural liberty and justice. The common people of England, however, so jealous of their liberty, but like the common people of most other countries never rightly understanding wherein it consists […]. (I.x.c, 59)

Smith fears that natural freedom is seriously endangered the moment people can no longer choose their place of residence and work according to their needs and

abilities without interference from the authorities. Particularly affected by this, he observes, are those whose movements are restricted by poor laws.

> There is scarce a poor man in England of forty years of age, I will venture to say, who has not in some part of his life felt himself most cruelly oppressed by this illcontrived law of settlements. (I.x.c, 59)

The poor law in England during Smith's time maintains that workers without assets are not allowed to change their parish without a certificate from the parish clerk. This certificate is required by the new municipality, but often the old municipality from which the worker is leaving refuses to issue such a certificate. This vicious circle is justified by the municipalities on the grounds of financial burdens, as it may entail obligations for the old municipality such as maintenance payments in case of injury or illness.

> The very unequal price of labour which we frequently find in England in places at no great distance from one another is probably owing to the obstruction which the law of settlements gives to a poor man who would carry his industry from one parish to another without a certificate. A single man, indeed, who is healthy and industrious, may sometimes reside by sufferance without one; but a man with a wife and family who should attempt to do so would in most parishes be sure of being removed, and if the single man should afterwards marry, he would generally be removed likewise. The scarcity of hands in one parish, therefore, cannot always be relieved by their superabundance in another, as it is constantly in Scotland, and, I believe, in all other countries where there is no difficulty of settlement. In such countries, though wages may sometimes rise a little in the neighbourhood of a great town, or wherever else there is an extraordinary demand for labour, and sink gradually as the distance from such places increases, till they fall back to the common rate of the country; yet we never meet with those sudden and unaccountable differences in the wages of neighbouring places which we sometimes find in England, where it is often more difficult for a poor man to pass the artificial boundary of a parish than an arm of the sea or a ridge of high mountains, natural boundaries which sometimes separate very distinctly different rates of wages in other countries. (I.x.c, 58)

Smith shows that these laws are a threat to that freedom of which the common people in particular are so proud.

> The common people of England […] have now for more than a century together suffered themselves to be exposed to this oppression without a remedy. Though men of reflection, too, have sometimes complained of the law of settlements as a public grievance; yet it has never been the object of any general popular clamour, such as that against general warrants, an abusive practice undoubtedly, but such a one as was not likely to occasion any general oppression. (I.x.c, 59)

The law on settlements states that the respective parish has to decide on the admission of new members. Financial considerations play a role here, of course, and Smith describes how the poor are particularly affected by exclusion. In this context Smith uses the term natural liberty as a synonym for the right of every person to freely choose their place of residence, i.e. to move freely within the country.

According to Smith the free choice of where to live and work is a basic prerequisite for a functioning market economy, because in perfectly free markets wages and profits will equalise. The principle of natural liberty, as Smith shows, will not work against but in the end for the prosperity of communities. Any intervention

such as restriction of movement has far-reaching consequences which in the end are not always in the interest of the communities concerned.

> If in the same neighbourhood, there was any employment evidently either more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert it in the other, that its advantages would soon return to the level of other employments. This at least would be the case in a society where things were left to follow their natural course, where there was perfect liberty, and where every man was perfectly free both to choose what occupation he thought proper, and to change it as often as he thought proper. Every man's interest would prompt him to seek the advantageous, and to shun the disadvantageous employment. (I.x.a, 1)

However, Smith concedes that even with perfect economic freedom three other conditions must be met for an economy to be successful.

> First, the employments must be well known and long established in the neighbourhood; secondly, they must be in their ordinary, or what may be called their natural state; and, thirdly, they must be the sole or principal employments of those who occupy them. (I.x.b, 40)

Normal conditions are synonymous with natural conditions; they must be guaranteed for a trade to be successful. A "natural state" is thus always more than the free, unhampered market whose forces can best operate with complete autonomy. For Smith demonstrates that, especially in the case of an economic policy that restricts the freedom of trade, the advantages and disadvantages cannot be balanced out in the case of the different uses of labour and capital.

> It does this chiefly in the three following ways. First, by restraining the competition in some employments to a smaller number than would otherwise be disposed to enter into them; secondly, by increasing it in others beyond what it naturally would be; and, thirdly, by obstructing the free circulation of labour and stock, both from employment to employment and from place to place. (I.x.c, 2)

In this context, he criticises traditional corporations in particular, as they have become the epitome of restriction, paternalism, control, steering, intervention and surveillance. They represent all those forces that are largely hostile to the concept of natural freedom. Guilds and corporations, as Smith sees it in the eighteenth century, hinder the free circulation of labour and capital in an unnatural and thus counterproductive way.

> The pretence that corporations are necessary for the better government of the trade is without any foundation. The real and effectual discipline which is exercised over a workman is not that of his corporation, but that of his customers. It is the fear of losing their employment which restrains his frauds and corrects his negligence. […] It is in this manner that the policy of Europe, by restraining the competition in some employments to a smaller number than would otherwise be disposed to enter into them, occasions a very important inequality in the whole of the advantages and disadvantages of the different employments of labour and stock.
>
> Secondly, the policy of Europe, by increasing the competition in some employments beyond what it naturally would be, occasions another inequality of an opposite kind in the whole of the advantages and disadvantages of the different employments of labour and stock. (I.x.c, 31–32)

Taking the example of corporations which in his view have developed into a restrictive medium of a misunderstood economic policy and have long since lost sight of their real goal, the promotion of the nation's prosperity, Smith succeeds in making a convincing plea for the free choice of place of residence and of occupation. Otherwise, natural freedom is restricted and there are adverse consequences for the market and the "free circulation of stock from one place to another."

> Whatever obstructs the free circulation of labour from one employment to another obstructs that of stock likewise; the quantity of stock which can be employed in any branch of business depending very much upon that of the labour which can be employed in it. Corporation laws, however, give less obstruction to the free circulation of stock from one place to another than to that of labour. It is everywhere much easier for a wealthy merchant to obtain the of trading in a town corporate, than for a poor artificer to obtain that of working in it. (I.x.c, 44)

The liberal attitude that every person is free to move and settle as they please is therefore continued in *The Wealth of Nations* in that everyone should also have the natural freedom of choice of occupation. As long as the community is not harmed individuals will take care of themselves and choose a profitable occupation. The instinct of self-preservation, together with the forces of the market, establishes a framework of conditions according to which everyone is free to decide. This free decision, the natural freedom to choose one's occupation, is positioned in the context of the common good as the primary requirement for society—and justified accordingly:

> The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable. The patrimony of a poor man lies in the strength and dexterity of his hands; and to hinder him from employing this strength and dexterity of his hands; and to hinder him from employing this strength and dexterity in what manner he thinks proper without injury to his neighbour is a plain violation of this most sacred property. It is a manifest encroachment upon the just liberty both of the workman and of those who might be disposed to employ him. As it hinders the one from working at what he thinks proper, so it hinders the others from employing whom they think proper. To judge whether he is fit to be employed may surely be trusted to the discretion of the employers whose interest it so much concerns. The affected anxiety of the law-giver lest they should employ an improper person is evidently as impertinent as it is oppressive. (I.x.c, 12)

Smith's reservations about an intervening government that is not committed to the interests of the people underlines his liberal stance. The natural freedom of each individual to seek appropriate employment or even to hire suitable employees is founded on the realisation that each person acts in the interest of his or her personal interest. And this personal interest leads in its social and thus economic implementation to a positive effect on the community. Thus the natural freedom of each person becomes the most important component of a prosperous society. Political non-interference results from the demand to comply with the natural freedom of the individual in all matters as long as the common good is not endangered. Any intervention in the self-regulating system can thus only be harmful. Smith's model of the increasing prosperity of nations is therefore based on the natural freedom of each person to determine his or her own destiny. Only in very few cases does Smith

concede government intervention, again in the interest of the whole over individual welfare:

> To restrain private people, it may be said, from receiving in payment the promissory notes of a banker, for any sum whether great or small, when they themselves are willing to receive them, or to restrain a banker from issuing such notes, when all his neighbours are willing to accept of them, is a manifest violation of that natural liberty which it is the proper business of law not to infringe, but to support. Such regulations may, no doubt, be considered as in some respects a violation of natural liberty. But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments, of the most free as well as of the most despotical. The obligation of building party walls, in order to prevent the communication of fire, is a violation of natural liberty exactly of the same kind with the regulations of the banking trade which are here proposed. (II.ii, 94)

Morally as well as legally, Smith says, the natural right of personal freedom may only be restricted if the economic or social security of the whole country is endangered by selfishness, thoughtlessness or ignorance. And only in this one case, when the functioning of the polity is truly threatened, does he consider state restrictions of individual liberty justified. Only the stability of the whole may curtail the natural freedom of the individual.

Therefore, when a government intervenes it must always examine who benefits from intervention and legislation. Is it really beneficial to the general public to limit the natural freedom of the individual and to regulate their actions, or are not the unhindered forces of the market eventually much more effective? Smith uses the example of two different laws to discuss the consequences of intervening in the market. In both cases, the underlying concern of the government is to protect the general public from being deceived. In Smith's time, for example, a manufacturer of goods was prohibited from also operating a retail business of the goods he was producing, while farmers were forced by law to act as both farmers and grain merchants.

> Both laws were evident violations of natural liberty, and therefore unjust; and they were both, too, as impolitic as they were unjust. It is the interest of every society that things of this kind should never either be forced or obstructed. The man who employs either his labour or his stock in a greater variety of ways than his situation renders necessary can never hurt his neighbour by underselling him. He may hurt himself, and he generally does so. Jack of all trades will never be rich, says the proverb. But the law ought always to trust people with the care of their own interest, as in their local situations they must generally be able to judge better of it than the legislator can do. The law, however, which obliged the farmer to exercise the trade of a corn merchant was by far the most pernicious of the two. (IV.v.b, 16)

Smith argues from a liberal point of view emphasising that the constructive and beneficial forces of society work best in an environment of the greatest possible freedom. In his analysis, insisting on the natural freedom of the individual does not lead to society being harmed; on the contrary, it is the invisible hand of the market that provides a just balance of interests. By following their self-interest, entrepreneurs, like farmers and merchants, usually regulate their activities in a productive way and do not harm society. Any state intervention in natural freedom endangers the performance of a prosperous society, and external interference by the

government potentially limits the individual's ability to truck and barter. If, on the other hand, people are granted their natural right, a harmonious and prosperous society develops or is maintained practically by itself, without government interference. Economic freedom thus also becomes an indicator and symptom of other freedoms and allows for an evaluation of the general state of that society.

> All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. (IV.ix, 51)

The freedom to choose productive work and the possibility to invest capital according to personal preferences are the positive consequences of natural freedom granted to citizens of a liberal society, and Smith sees this as a central principle of the wealth of any nation.

Questions

What role does self-interest play in Adam Smith's understanding of economic activity?

How does Adam Smith distinguish between self-interest and selfish egoism?

Describe Adam Smith's view on the relationship between self-interest and social norms.

How does Adam Smith illustrate the importance of specialisation in economic activity?

Why does Adam Smith highlight the professions of butcher, brewer, or baker?

How does Adam Smith utilize the concept of "nature" in "*The Wealth of Nations*"?

Describe the impact of poor laws on natural freedom as discussed by Adam Smith.

How does Adam Smith argue for the importance of free movement and settlement within a country?

What role does natural freedom play in the functioning of a market economy, according to Adam Smith?

Why does Adam Smith criticise traditional corporations and guilds in relation to natural freedom?

How does Adam Smith justify the freedom of individuals to choose their occupation?

What is Adam Smith's perspective on government intervention in economic affairs?

The Invisible Hand

Abstract The chapter discusses how Smith explores the metaphor of the "invisible hand" as a rhetorical device used to illustrate economic principles. Smith's writing style emphasises clarity and precision, with frequent references to previous points and careful consideration of potential objections. The metaphor of the "invisible hand" is introduced as a personification of the guiding force in economic affairs, often interpreted as the market mechanisms that regulate supply and demand. Smith's use of this metaphor is analysed in the context of his broader philosophical and economic theories, including its origins in his earlier works as divine providence and in reference to the role of politicians in later works.

In this context Smith analyses the mechanisms of supply and demand in the market, illustrating how they determine prices and equilibrium. He discusses the concept of the "invisible hand" guiding individual decisions to promote the common good and maintain some kind of balance between market and natural prices. Smith discusses at length how prices are determined and highlights the conditions that dictate how competition works and how profit is made. It is one central idea of "*The Wealth of Nations*" that the interplay of supply and demand functions without it being actively pursued by individual participants of market exchanges, whose true motives might not even be entirely clear to themselves. The promotion of the common good is often achieved by the invisible hand without the individuals concerned actively pursuing it.

Smith emphasises the importance of competition in achieving optimal supply and highlights obstacles such as monopolies and state intervention that disrupt market equilibrium. He also explores various social groups and their roles in the distribution of wealth, examining the factors influencing their respective decisions and the ensuing results on the prosperity and well-being of individuals, local communities and nations. It is particularly interesting to see how Smith differentiates between these different orders of society—workers, landowners and merchants or entrepreneurs—and how he interprets their respective motives for economic interaction and their connection with the general interest of society.

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_6

As a philosopher of the Enlightenment and member of the Royal Society Smith is committed to a certain style of language and writing. His concern is to let statements work through the power of argument and not to complicate texts unnecessarily. Stylistically, precise and clear language is his main aim in *The Wealth of Nations*. This concern becomes particularly clear in the many comments to the reader in which he refers to important points in other chapters, gives reasons for lengthy explanations and carefully weighs up possible objections to his reasoning, countering them with arguments very early on.

His cautious style, sprinkled with apologies for elaborate language or metaphors, has already been mentioned. It is remarkable that Smith again and again sees the need to clarify certain points. This probably includes his most famous metaphor, the image of the "invisible hand" in Book Four of *The Wealth of Nations*:

> As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. (IV.ii, 9)

Every individual, Smith writes, inevitably participates in economic life and is thus guided in their actions "by an invisible hand to promote an end which was no part of his intention." This metaphor is, strictly speaking, a subcategory of metaphorical speech, a personification. In the passage quoted, a person is directed like a puppet by a higher power. This power is endowed with human qualities and attributes—mind and body, like a gigantic puppeteer. It is a rather striking metaphor that portrays human beings as passive, helpless, possibly insignificant but certainly without a mind and the ability to act independently, and by contrast the metaphor shapes that higher power in the reader's imagination like a human being, placing it in a god-like position. Although Smith's name is inextricably linked with the concept of the "invisible hand," in his book *The Wealth of Nations* he mentions the "invisible hand" explicitly at this point only and it is not explained in detail. However, it can already be found in two of his earlier writings.

The phrase "the invisible hand of Jupiter" appears in his essay on the "History of Astronomy." In this rather important theoretical essay Smith discusses basic procedures of obtaining scientific knowledge and he describes the effect of the invisible hand of divine intervention on nature. It is the hand of the Roman god Jupiter that directs natural events and Smith argues that it was in thunder and lightning that our ancestors visualised a divine power controlling all processes in nature.

Smith uses the metaphor of the "invisible hand" his first book, *The Theory of Moral Sentiments*, in Part IV, Chap. 1. There it is divine providence that leads the wealthy to share their riches with the poor.

> The rich only select from the heap what is most precious and agreeable. They consume little more than the poor, and in spite of their natural selfishness and rapacity, though they mean only their own conveniency, though the sole end which they propose from the labours of all the thousands whom they employ, be the gratification of their own vain and insatiable desires, they divide with the poor the produce of all their improvements. They are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species. (IV, 1)

In *The Theory of Moral Sentiments* people promote prosperity without actually "intending it, without knowing it." It is the redistribution of goods in the economic circle rather which results from the increasing expenditure of the rich on luxuries and thus brings wages and employment to a large number of the poor. Smith leaves no doubt that here, too, a higher authority directs the destiny of human beings, while at the same time taking into account the overall plan of human action, the clockwork of the world if you will. Such a mechanistic conception of interlocking processes aptly illustrates Smith's thinking.

Interestingly, however, Smith does not settle on a single and thus limited reading of his metaphor. He avoids postulating incontrovertible truths and often offers several possible interpretations. Thus, there are always different evaluations of his statements, sometimes even contradictory interpretations. The metaphor of the "invisible hand" is a good example of this. For in *The Theory of Moral Sentiments* Smith not only speaks of divine providence guiding the destinies of human beings as a quasi-larger-than-life person, but Smith develops his figurative language on this level even further. He employs the image of the politician who, in analogy to the chess player, moves the pieces on the chessboard of human society.

The politician, according to Smith in *The Theory of Moral Sentiments*, believes himself to be in the position of an omnipotent chess player who can move people like pieces on a chessboard—easily and as he likes. The politician appears omnipotent, superior and powerful, thus denying the rest of humanity any autonomous action. In this passage, too, it is a gigantic hand, this time that of personified politics, that directs the destinies of people according to a preconceived plan. No individual piece on the human chessboard is aware of the complex overall plan, no one sees more than their immediate environment and their limited abilities. Only the politician believes that, like a superhuman giant with godlike power, he can direct the destinies of the rest of mankind with a mighty hand.

A comparative reading of the passages in Smith's writings that lead to the famous metaphor of the "invisible hand" in *The Wealth of Nations* shows that Smith's use of this rhetorical figure depends on the particular textual context and theme of the chapter. An unambiguous reading cannot be established for *The Wealth of Nations* either, if one takes into account the different meanings. But whoever or whatever the invisible hand might be, central remains the person moved by it who "is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention." The rhetorical effect of the famous metaphor is primarily based on the enormous difference in size between the controlling power on the one hand,

which intervenes from above, shaping the destinies of people and society, and people in general who as single beings are irrelevant and who lack the ability to fully comprehend the complex interplay of all (market) mechanisms.

But since Smith speaks of the forces of the market, it seems reasonable to assume that his metaphor of the "invisible hand" is primarily concerned with the depiction of overarching economic and social mechanisms and probably less with the hand of God. Market mechanisms ensure the distribution of goods, and the invisible hand regulates the interplay of supply and demand.

This interplay functions because everyone pursues their own interests without having the supply of society in mind or wanting to ensure it. By pursuing their own self-interest, everyone promotes the common good without having originally intended to do so. Supply and demand are the governing mechanisms of the market, and the "invisible hand" is the guiding principle.

Understanding the market requires a differentiated price theory and Smith explains the difference between market price and natural price in a first step. He assumes that in every society or community there are average rates for wages, profits and land rent. This thinking can be traced back to Thomas Aquinas' concept of iustum pretium, the just price. Smith describes a price that covers the cost of production and which in turn is based on the producer's standard of living. If a commodity is sold at a price that corresponds to what Smith calls the natural rates of wages, profit and rent, then this is the natural price of the commodity.

> When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates, the commodity is then sold for what may be called its natural price. (I.vii, 4)

The price actually paid on the market must be distinguished from this price. This results from the interaction of supply and demand.

> The market price of every particular commodity is regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labour, and profit, which must be paid in order to bring it thither. Such people may be called the effectual demanders, and their demand the effectual demand; since it may be sufficient to effectuate the bringing of the commodity to market. It is different from the absolute demand. (I.vii, 7)

Supply and demand are thus decisive for the market price. Smith distinguishes between effectual demand and absolute demand, whereby absolute demand is irrelevant for price determination. It rather corresponds to the desire for goods that one would like to have but cannot afford. Only effectual demand is decisive, as it is relevant for the price of a good. The price of a good is thus determined on the one hand by the production costs, the natural price, and on the other hand by supply and demand, the market price. However, these two prices are closely linked.

> The actual price at which any commodity is commonly sold is called its market price. It may either be above, or below, or exactly the same with its natural price. (I.vii, 7)

The market price revolves around the natural price. Smith uses different examples to explain how upward and downward deviations of the market price from the

natural price work. If the market price is above the natural price, supply will increase because it is worth investing in the production of that good. A decision on whether to produce additional goods lies in the individual decision of each person, who in turn pursues his or her own interests in doing so. Although many make such a decision independently of each other, a balance of supply and demand occurs on the market, which ultimately leads to a sufficient supply of the population. As if guided by an invisible hand people have, without originally intending it, contributed to the market being sufficiently supplied and the population having sufficient goods at their disposal.

> If at any time it exceeds the effectual demand, some of the component parts of its price must be paid below their natural rate. If it is rent, the interest of the landlords will immediately prompt them to withdraw a part of their land; and if it is wages or profit, the interest of the labourers in the one case, and of their employers in the other, will prompt them to withdraw a part of their labour or stock from this employment. The quantity brought to market will soon be no more than sufficient to supply the effectual demand. All the different parts of its price will rise to their natural rate, and the whole price to its natural price. (I.vii, 13)

Thus, an inflated market price will increase supply, eventually causing the market price to fall and align with the natural price. Smith assumes that entrepreneurs out of selfishness will try to conceal an excessive market price, thereby trying to keep their high profits secret. However, since high prices cannot be kept a secret in the long run, the market price will approach the natural price again.

> When by an increase in the effectual demand, the market price of some particular commodity happens to rise a good deal above the natural price, those who employ their stocks in supplying that market are generally careful to conceal this change. If it was commonly known, their great profit would tempt so many new rivals to employ their stocks in the same way that, the effectual demand being fully supplied, the market price would soon be reduced to the natural price, and perhaps for some time even below it. If the market is at a great distance from the residence of those who supply it, they may sometimes be able to keep the secret for several years together, and may so long enjoy their extraordinary profits without any new rivals. Secrets of this kind, however, it must be acknowledged, can seldom be long kept; and the extraordinary profit can last very little longer than they are kept. (I.vii, 21)

If too many entrepreneurs, in view of the high profits to be expected, have invested in these branches of production, the market is eventually oversupplied. This oversupply causes the market price to fall, possibly below the natural price. However, this can only happen in the short term, because as a result supply will decrease as, for example, some entrepreneurs stop their production.

> If, on the contrary, the quantity brought to market should at any time fall short of the effectual demand, some of the component parts of its price must rise above their natural rate. If it is rent, the interest of all other landlords will naturally prompt them to prepare more land for the raising of this commodity; if it is wages or profit, the interest of all other labourers and dealers will soon prompt them to employ more labour and stock in preparing and bringing it to market. The quantity brought thither will soon be sufficient to supply the effectual demand. All the different parts of its price will soon sink to their natural rate, and the whole price to its natural price. (I.vii, 14)

Smith uses a rather unusual example to show how the prices for a commodity can develop under different circumstances. He chooses a commodity that is needed at a

certain point in time throughout the country, and for the production of which various trades and operations are necessary.

> A public mourning raises the price of black cloth (with which the market is almost always understocked upon such occasions), and augments the profits of the merchants who possess any considerable quantity of it. It has no effect upon the wages of the weavers. The market is understocked with commodities, not with labour; with work done, not with work to be done. It raises the wages of journeymen tailors. The market is here understocked with labour. There is an effectual demand for more labour, for more work to be done than can be had. It sinks the price of coloured silks and cloths, and thereby reduces the profits of the merchants who have any considerable quantity of them upon hand. It sinks, too, the wages of the workmen employed in preparing such commodities, for which all demand is stopped for six months, perhaps for a twelvemonth. (I.vii, 19)

Smith's illustration shows how the mechanisms of the market determine the relationship between supply and demand in a very specific situation. As the example of a country in mourning shows, the demand for black cloth can suddenly be extremely increased while coloured cloth can temporarily not be sold on the market. This causes the market price to fall below the production costs. This will continue for a short time only because in the long term there must be a balance between market price and natural price.

In the long run, only goods that achieve a market price that at least covers the costs of production will be produced. Here, too, the invisible hand guides individual decisions according to the principle of self-interest in such a way that the common good is promoted and equilibrium ensues.

> The market price of any particular commodity, though it may continue long above, can seldom continue long below its natural price. Whatever part of it was paid below the natural rate, the persons whose interest it affected would immediately feel the loss, and would immediately withdraw either so much land, or so much labour, or so much stock, from being employed about it, that the quantity brought to market would soon be no more than sufficient to supply the effectual demand. Its market price, therefore, would soon rise to the natural price. This at least would be the case where there was perfect liberty. (I.vii, 30)

Thus the competing forces of the market, supply and demand, cause both prices to coincide in the long run. The natural price indicates an equilibrium where production costs are just covered.

> When the quantity brought to market is just sufficient to supply the effectual demand, and no more, the market price naturally comes to be either exactly, or as nearly as can be judged of, the same with the natural price. The whole quantity upon hand can be disposed of for this price, and cannot be disposed of for more. The competition of the different dealers obliges them all to accept of this price, but does not oblige them to accept of less. (I.vii, 11)

Such a state is achieved when competition in the market is not hindered, and the invisible hand operates in "perfect liberty." A competitive price guarantees the best supply at a favourable price, and supply and demand are equal.

> The whole quantity of industry annually employed in order to bring any commodity to market naturally suits itself in this manner to the effectual demand. It naturally aims at bringing always that precise quantity thither which may be sufficient to supply, and no more than supply, that demand. (I.vii, 16)

The emergence of such an equilibrium in a single market, as well as in the economy as a whole, guarantees optimal supply. Smith's remarks on the balancing of supply and demand accurately describe the mechanisms of the market economy and are timeless in their significance for economic transactions. The formation of such an equilibrium is at the heart of every market economy and only occurs when competition is unhindered. Only the free play of market forces guarantees efficient supply for individuals and thus serves the common good at the same time.

> In general, if any branch of trade, or any division of labour, be advantageous to the public, the freer and more general the competition, it will always be the more so. (II.ii, 106)

However, Smith does not overlook the fact that there are obstacles on the way to this equilibrium. If people are not free in their decision to direct their activities in the market as they see fit, supply and demand will not be balanced. Competition may be hindered by private monopolies, for example.

> A monopoly granted either to an individual or to a trading company has the same effect as a secret in trade or manufactures. The monopolists, by keeping the market constantly understocked, by never fully supplying the effectual demand, sell their commodities much above the natural price, and raise their emoluments, whether they consist in wages or profit, greatly above their natural rate.
>
> The price of monopoly is upon every occasion the highest which can be got. The natural price, or the price of free competition, on the contrary, is the lowest which can be taken, not upon every occasion, indeed, but for any considerable time together. The one is upon every occasion the highest which can be squeezed out of the buyers, or which, it is supposed, they will consent to give: the other is the lowest which the sellers can commonly afford to take, and at the same time continue their business. (I.vii, 26–27)

The dynamics of the market prevent the market price from approaching the natural price. State intervention might act like a monopoly and prevent the lowest competitive price from prevailing. Such interventions disrupt the balance of interests between buyers and suppliers. In Smith's time competition was hindered by the special rights of guilds, which also negatively affected the movement of capital. Restrictions and limitations also existed through the poor law in England at that time and the statutes of apprenticeship, both of which interfered in the free choice of employment of the worker. In this way, employment is steered in an "unnatural" direction.

> The exclusive privileges of corporations, statutes of apprenticeship, and all those laws which restrain, in particular employments, the competition to a smaller number than might otherwise go into them, have the same tendency, though in a less degree. They are a sort of enlarged monopolies, and may frequently, for ages together, and in whole classes of employments, keep up the market price of particular commodities above the natural price, and maintain both the wages of the labour and the profits of the stock employed about them somewhat above their natural rate.
>
> Such enhancements of the market price may last as long as the regulations of police which give occasion to them. (I.vii, 28–29)

But competition is also limited by the behaviour of the suppliers, because the prospects of higher prices and thus higher profits are attractive. However, since everyone pursues their own self-interest and always strives to achieve the highest price

possible, there are often mergers of like-minded people. If, however, a "conspiracy against the public" develops from this, legitimate self-interest turns into socially harmful egoism that disturbs the balance of the market. These associations of like-minded people exclude others and consciously pursue their own advantage at the expense of the general public. The result is that groups of like-minded individuals are often in a better position than the general public and their actions do not increase the common good.

> People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. (I.x.c, 27)

Competition is thus suspended, entrepreneurs set out to charge excessive prices and enrich themselves at the expense of the general public. Competition normally restricts unbridled self-interest very effectively and makes it compatible with the common good, but disturbing the equilibrium eliminates competition.

Smith talks about several social groups and outlines their characteristics in great detail. A common feature of these descriptions of groups is the role they play in society, their share in the wealth of a country, and beyond that Smith also explores the question of how different social groups define themselves. One can distinguish several strongly typified occupational groups in *The Wealth of Nations*, but they all have one thing in common: It is the concept of the human being who acts and thinks as a member of the market. These social groups include, despite their respective different economic characteristics and their function in society, the poor and the rich, workers, craftsmen and entrepreneurs as well as "frivolous professions", described by Smith in meticulous detail:

> churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers, opera-dancers, etc. (II.iii, 2)

Smith's view of society seems somewhat reduced or biased and, at least from today's perspective, in places not unproblematic, considering his distinction between the social roles of men and women in the eighteenth century.

But unlike previous generations of philosophers, Smith observes human beings realistically and does not contrast the observation of reality with an ideal conception of humanity in an ideal world. This difference from the teleological system of Aristotelian ethics is particularly evident when he makes observations about the nature of everyday life. For him people do not always behave in a purely rational way and his critical evaluation of how people make decisions and behave in certain situations is rather telling.

Smith shows in *The Wealth of Nations* the many motives that play a role in decision making. Risk influences people's behaviour not only in entrepreneurial decisions regarding the investment of their capital, but also, for example, in their choice of occupation. People are usually very careful to invest and generally shy away from risky business. However, Smith observes a reversed attitude to risk in the choice of occupation. The risk involved in becoming a soldier or a sailor is neglected in particular by young people, and they tend to suppress the notion of possible dangers.

Therefore, they take up dangerous professions even with little money and low wages that would compensate for the risk of being a soldier or a sailor. In Smith's time wages for ordinary work, for example of craftsmen and of sailors, were the same.

> The dangers and hairbreadth escapes of a life of adventures, instead of disheartening young people, seem frequently to recommend a trade to them. […] The distant prospect of hazards, from which we can hope to extricate ourselves by courage and address, is not disagreeable to us, and does not raise the wages of labour in any employment. (I.x.b, 32)

The risk of a dangerous profession involves a personal challenge that demands courage and skill and is rewarded by glory rather than wealth—this is particularly popular among young people. Smith uses this observation of possible motives as an opportunity to uncover a paradoxical pattern of behaviour of people in general. For he shows that the old and the young, the poor and the rich alike, assess their opportunities and their risks with surprising bias and little rationality. Although a large number of decisions are made against all reason, according to Smith's observation, few people seem to be aware of their paradoxical behaviour. He explains that many people play the lottery even though, objectively speaking, they have very little chance of winning. In the eighteenth century gambling mania was rampant in England, there were state lotteries, and the drawing of winnings was a public spectacle.

But then as now only a few become rich through lottery winnings. Although many people hope for luck, chance and a big win in the lottery, they in turn do nothing to avert the opposite, a stroke of bad luck. Few insure their homes against fire, hoping instead that their property will be spared fire or other damage. On the one hand, Smith notes, people hope for profit and on the other they speculate on merciful fate. The relationship between risk and insurance does not stand up to rational scrutiny, not even in business.

> Taking the whole kingdom at an average, nineteen houses in twenty, or rather perhaps ninety-nine in a hundred, are not insured from fire. Sea risk is more alarming to the greater part of people, and the proportion of ships insured to those not insured is much greater. Many fail, however, at all seasons, and even in time of war, without any insurance. This may sometimes perhaps be done without any imprudence. When a great company, or even a great merchant, has twenty or thirty ships at sea, they may, as it were, insure one another. The premium saved upon them all may more than compensate such losses as they are likely to meet with in the common course of chances. The neglect of insurance upon shipping, however, in the same manner as upon houses, is, in most cases, the effect of no such nice calculation, but of mere thoughtless rashness and presumptuous contempt of the risk. (I.x.b, 28)

This irrational behaviour can even be observed in the case of low insurance premiums; it therefore does not seem to be exclusively a financial consideration that influences people in their assessment of risks and opportunities. It is important to note that Smith does not postulate an ideal of human behaviour in his observations but soberly, sometimes also quite ironically and not infrequently clearly critically, depicts irrational human behaviour and examines its effects on the individual and society.

Smith's differentiated view of human beings forms the basis for his theory of distribution and shows who profits most from a functioning market in a prosperous community. It is certainly the merchants and entrepreneurs who correspond most closely to a narrow understanding of what today is called a homo economicus, a term that depicts a selfish individual with a rational outlook on life and a egoistical attitude towards others. The term was first used by John Steward Mill 100 years after Smith and in *The Wealth of Nations* Smith takes great pains to show that in principle all people, willingly or unwillingly, contribute to maintaining prosperity through their personal work and consumption.

Smith chooses three exemplary groups of people in the general population as a starting point for his reflections on the distribution of income, which he examines in more detail:

> The whole annual produce of the land and labour of every country, or what comes to the same thing, the whole price of that annual produce, naturally divides itself, it has already been observed, into three parts; the rent of land, the wages of labour, and the profits of stock; and constitutes a revenue to three different orders of people; to those who live by rent, to those who live by wages, and to those who live by profit. These are the three great, original, and constituent orders of every civilised society, from whose revenue that of every other order is ultimately derived. (I.xi.p, 7)

Smith illustrates that, of course, the three types of income can also be earned by one person in certain situations.

> A gardener who cultivates his own garden with his own hands, unites in his own person the three different characters of landlord, farmer, and labourer. His produce, therefore, should pay him the rent of the first, the profit of the second, and the wages of the third. The whole, however, is commonly considered as the earnings of his labour. Both rent and profit are, in this case, confounded with wages. (I.vi, 23)

Wages, rent and profit represent the price for the use of the three factors of production: labour, land and capital. They circle back to the respective owners as income with which they can then in turn buy goods. In his view, the landowners represent the social group whose interests directly determine the fate of the general public.

> The interest of the first of those three great orders, it appears from what has been just now said, is strictly and inseparably connected with the general interest of the society. Whatever either promotes or obstructs the one, necessarily promotes or obstructs the other. (I.xi.p, 8)

Then follow the wage earners, usually the workers, whose fate is directly linked to the growth of the national economy.

> The interest of the second order, that of those who live by wages, is as strictly connected with the interest of the society as that of the first. The wages of the labourer, it has already been shown, are never so high as when the demand for labour is continually rising, or when the quantity employed is every year increasing considerably. When this real wealth of the society becomes stationary, his wages are soon reduced to what is barely enough to enable him to bring up a family, or to continue the race of labourers. When the society declines, they fall even below this. The order of proprietors may, perhaps, gain more by the prosperity of the society than that of labourers: but there is no order that suffers so cruelly from its decline. (I.xi.p, 9)

Finally, Smith examines entrepreneurs and merchants. He is particularly sceptical of them; he sees their merits for the national economy rather clearly, but Smith has reservations when it comes to political influence and balancing the interests of entrepreneurs and society as a whole. For him,

> employers constitute the third order, that of those who live by profit. It is the stock that is employed for the sake of profit which puts into motion the greater part of the useful labour of every society. The plans and projects of the employers of stock regulate and direct all the most important operations of labour, and profit is the end proposed by all those plans and projects. […] The interest of this third order, therefore, has not the same connection with the general interest of the society as that of the other two. (I.xi.p, 10)

The relationship of different "orders" of society to the distribution of the wealth of nations is one of the most important aspects of Smith's work. He pays particular attention to the self-image and image in society of those social groups that are significantly affected by differences in distribution. Smith's theory of distribution ties in with the three factors of production—labour, capital and land—which are decisive for the natural price in his price theory. With recourse to the different orders of people he examines how and to whom wages, profit and rent are distributed and on which factors this distribution depends.

Questions

What is the metaphor of the "invisible hand" and how does Adam Smith use it to explain economic phenomena?

How does Adam Smith distinguish between the natural price and the market price of goods?

What role do supply and demand play in determining market prices, according to Adam Smith?

How does Adam Smith illustrate the adjustment process of market prices towards the natural price?

How does Adam Smith use the example of a country in mourning to illustrate the relationship between supply and demand in the market?

Explain the concept of equilibrium in the market as discussed in "*The Wealth of Nations*."

Describe Adam Smith's theory of distribution and its connection to factors of production.

What influences the distribution of wages, rent, and profit in Adam Smith's analysis?

How does Adam Smith critique irrational behaviour in economic decision-making, such as gambling and lack of insurance?

What is the significance of Adam Smith's observations on human behaviour for his economic theories and understanding of society?

Those Who Live by Wages

Abstract In early societies, economic proceeds were equally shared as everyone produced what they needed. However, in modern societies the income of "those who live by wages" in Smith's words is influenced by the interests of landowners and entrepreneurs, which could reduce wages. Despite this, Smith argues that workers' wages depend on the capital available to entrepreneurs and that population growth affects labour supply. Smith emphasises that higher wages indicate growing prosperity, using comparisons between England and North America to illustrate his points. He is critical of stagnant economies like China, where labour demand is low and wages are minimal, leading to economic stagnation. Smith argues that workers are crucial for a functioning economy and their adequate remuneration is essential for overall prosperity.

Smith discusses the importance of reinvesting capital into businesses to employ more workers, thus enhancing national wealth. Smith's observations also reflect the power dynamics in wage negotiations and the impact of government policies on workers. His insights into worker behaviour challenge prevalent prejudices of his time, presenting a nuanced view of labour and its social implications. For Smith, ensuring a subsistence wage is vital for societal continuity. He argues that sufficient worker remuneration is economically beneficial, especially during prosperous times.

Smith recognises that workers often lack mobility compared to capital, which can be moved to areas with better profits. He believes that high wages should not lead to overexertion and seeks to counter stereotypes about workers being lazy. By analysing human behaviour, he suggests that work conditions shape attitudes rather than inherent qualities. Smith also argues that free time should not be misconstrued as laziness, emphasizing that both mental and physical labour require effort. He aims to highlight universal human characteristics to combat class prejudices prevalent in his time. Smith contends that workers are essential for a healthy economy, and their self-image must be preserved to foster the wealth of a nation. Prosperity, measured by workers' wages, is crucial for the functioning of society. He believes that increased capital investment leads to more work opportunities for those who live by wages, benefiting society as a whole.

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_7

Karl Marx was a connoisseur of Smith's writings, but he disapproved of Smith's perceived lack of sympathy for the fate of the ordinary worker. This is a somewhat astonishing take on *The Wealth of Nations* and considering Smith's concept of mankind, such a criticism seems untenable.

According to Smith in the first stages of society the full economic proceeds go to each and every member because everyone produces what they need. This, however, is a historical observation, because in every later stage of society the interests of landowners and entrepreneurs also determine the level of remuneration for labour.

> In that original state of things, which precedes both the appropriation of land and the accumulation of stock, the whole produce of labour belongs to the labourer. He has neither landlord nor master to share with him. (I.viii, 2)

The shares of the entrepreneur and the landowner, profit and rent, therefore reduce the wages of the worker in modern society. This need not necessarily be harmful and against the interests of the worker, for the total amount of wages depends on the size of the capital at the disposal of the entrepreneur. The worker is thus paid depending on the capital invested in a manufacture and the demand for labour in a country is also dependent on the accumulation of capital. As Smith shows at the beginning of *The Wealth of Nations*, capital is one of the basic prerequisites for the division of labour.

> The demand for those who live by wages, therefore, necessarily increases with the increase of the revenue and stock of every country and cannot possibly increase without it. The increase of revenue and stock is the increase of national wealth. The demand for those who live by wages, therefore, naturally increases with the increase of national wealth, and cannot possibly increase without it. (I.viii, 21)

However, labour supply is also dependent on population growth. That is why Smith discusses in detail the circumstances that lead to a rapid increase in population. In order to maintain the population, wages must "at least be sufficient to maintain" the worker and his family in the long term.

> A man must always live by his work, and his wages must at least be sufficient to maintain him. They must even upon most occasions be somewhat more; otherwise it would be impossible for him to bring up a family, and the race of such workmen could not last beyond the first generation. (I.viii, 15)

But as long as the demand for labour grows faster than the supply of labour, wages and the population will increase in a developing country. Smith states that higher wages are a symptom of growing prosperity and should therefore be regarded as a necessary consequence of general economic improvement. It is not the absolute level of prosperity that is decisive, but its steady increase.

> It is not the actual greatness of national wealth, but its continual increase, which occasions a rise in the wages of labour. It is not, accordingly, in the richest countries, but in the most thriving, or in those which are growing rich the fastest, that the wages of labour are highest. (I.viii, 22)

Smith explains this phenomenon in more detail by comparing England and its former colony North America: "England is certainly much richer at the moment than

any part of North America, but wages there are much higher than anywhere in England." His focus is on the speed of growth, which has a crucial impact on wages. These, in turn, bring about social changes that are reflected not least in what is, critically, a commercialised view of humanity. Smith always maintains a distance and the interpretation of his observations is characterised by an objective and detached approach.

> But though North America is not yet so rich as England, it is much more thriving, and advancing with much greater rapidity to the further acquisition of riches. The most decisive mark of the prosperity of any country is the increase of the number of its inhabitants. In Great Britain, and most other European countries, they are not supposed to double in less than five hundred years. In the British colonies in North America, it has been found that they double in twenty or five-and-twenty years. Nor in the present times is this increase principally owing to the continual importation of new inhabitants, but to the great multiplication of the species. Those who live to old age, it is said, frequently see there from fifty to a hundred, and sometimes many more, descendants from their own body. Labour is there so well rewarded that a numerous family of children, instead of being a burthen, is a source of opulence and prosperity to the parents. The labour of each child, before it can leave their house, is computed to be worth a hundred pounds clear gain to them. A young widow with four or five young children, who, among the middling or inferior ranks of people in Europe, would have so little chance for a second husband, is there frequently courted as a sort of fortune. The value of children is the greatest of all encouragements to marriage. We cannot, therefore, wonder that the people in North America should generally marry very young. Notwithstanding the great increase occasioned by such early marriages, there is a continual complaint of the scarcity of hands in North America. (I.viii, 23)

In *The Wealth of Nations* North America serves for a multitude of direct comparisons with England and Smith's precise knowledge of the social and economic circumstances is almost certainly due to an intensive exchange of ideas with well-informed members of the various clubs in which he was an active member. While he sees America increasingly developing into one of the leading economic powers, Smith is extraordinarily critical of the economic situation in other countries, primarily in Africa and Asia.

China as a culturally advanced nation and formerly rich country, is a particularly fitting example of stagnant development for Smith. In his discussion he focuses on the sad fate of Chinese workers who have fallen back to the social status of beggars. In China the demand for labour is much lower than the supply of desperate workers so that wages sink to the lowest level that is just enough to survive. Smith concludes from his observations that such a situation leads to the end of a nation's prosperity.

> China has been long one of the richest, that is, one of the most fertile, best cultivated, most industrious, and most populous countries in world. It seems, however, to have been long stationary. Marco Polo, who visited it more than five hundred years ago, describes its cultivation, industry, and populousness, almost in the same terms in which they are described by travellers in the present times. It had perhaps, even long before his time, acquired that full complement of riches which the nature of its laws and institutions permits it to acquire. The accounts of all travellers, inconsistent in many other respects, agree in the low wages of labour, and in the difficulty which a labourer finds in bringing up a family in China. If by digging the ground a whole day he can get what will purchase a small quantity of rice in the evening, he is contented. The condition of artificers is, if possible, still worse. Instead of waiting indolently in their workhouses, for the calls of their customers, as in Europe, they

> are continually running about the streets with the tools of their respective trades, offering their service, and as it were begging employment. The poverty of the lower ranks of people in China far surpasses that of the most beggarly nations in Europe. (I.viii, 24)

Workers and artisans who generate the wealth of a country with their labour represent for Smith one of the important pillars of a functioning economy. If the self-image of such a group is undermined, as is the case with the workers of China begging for work, and if they are kept in slavish dependence then an increase of general prosperity is not possible. What remains is economic stagnation.

Smith's statements about the lot of the ordinary Chinese worker are rather sobering and it is up to the readers to make their own assessments. What is striking about such observations is that Smith makes use of the cultural and geographical distance between his own social environment and that of the exotic space of description. In the case of England, continental Europe or the more closely related North American colonies Smith is always at pains not to disregard the human cost, the individual's fate associated with economic (mis)developments. The English beggar and the French farmhand are so close to Smith and his readers that his observations often include a social-cultural component. The Orient and Asia, on the other hand, are distant regions somewhat mythical, exotic and far away and thus serve purely as theoretical models without tangible relevance to life in Britain or the rest of Europe.

Such a procedure of detached observation, which resembles a simulation or an economic game rather than a realistic description of real-life conditions, can be found in Smith's example of Bengal. The fate of the workers could not be harsher, all of them are directly endangered in their existence; Smith, however, hides all sympathy and offers the reader material for an economic analysis that is situated within an actual geographical location only for empirical evidence.

> But it would be otherwise in a country where the funds destined for the maintenance of labour were sensibly decaying. Every year the demand for servants and labourers would, in all the different classes of employments, be less than it had been the year before. Many who had been bred in the superior classes, not being able to find employment in their own business, would be glad to seek it in the lowest. The lowest class being not only overstocked with its own workmen, but with the overflowings of all the other classes, the competition for employment would be so great in it, as to reduce the wages of labour to the most miserable and scanty subsistence of the labourer. Many would not be able to find employment even upon these hard terms, but would either starve, or be driven to seek a subsistence either by begging, or by the perpetration perhaps of the greatest enormities. Want, famine, and mortality would immediately prevail in that class, and from thence extend themselves to all the superior classes, till the number of inhabitants in the country was reduced to what could easily be maintained by the revenue and stock which remained in it, and which had escaped either the tyranny or calamity which had destroyed the rest. This perhaps is nearly the present state of Bengal, and of some other of the English settlements in the East Indies. (I. viii, 26)

The geographical distance is huge, and Smith sees that the spatial and social distance to the fellow human being influences the psychological and ethical evaluation of his situation. This phenomenon, also considered by Aristotle, Thomas Aquinas and David Hume, shapes the detached, matter-of-fact description of the desolate situation of Bengal and comparable countries where wages are in decline. These

countries must inevitably fall into a state of anarchy and ungovernability until "despotism and turmoil" are gone.

These remarks illustrate the dramatic effects of such a development and Smith shows unmistakably that social consequences are quite directly related to economic ones. Prosperity, measured in terms of wages that determine the living conditions of workers, therefore not only guarantees economic survival, but prosperity is also one of the basic prerequisites for a functioning society.

> The liberal reward of labour, therefore, as it is the effect of increasing wealth, so it is the cause of increasing population. To complain of it is to lament over the necessary effect and cause of the greatest public prosperity. (I.viii, 42)

However, the demand for workers can only increase to the extent that the funds earmarked for wage payments also increase. These wage funds become larger when entrepreneurs do not consume capital themselves but use the surplus for new hires. As a rule, they will invest income that they do not immediately need for subsistence in the enterprise and thus employ more workers.

> When the landlord, annuitant, or monied man, has a greater revenue than what he judges sufficient to maintain his own family, he employs either the whole or a part of the surplus in maintaining one or more menial servants. Increase this surplus, and he will naturally increase the number of those servants.
>
> When an independent workman, such as a weaver or shoemaker, has got more stock than what is sufficient to purchase the materials of his own work, and to maintain himself till he can dispose of it, he naturally employs one or more journeymen with the surplus, in order to make a profit by their work. Increase this surplus, and he will naturally increase the number of his journeymen.
>
> The demand for those who live by wages, therefore, necessarily increases with the increase of the revenue and stock of every country, and cannot possibly increase without it. (I.viii, 19–21)

Smith assumes that capital is reinvested to increase the business of the entrepreneur or self-employed craftsman. The moment such surpluses are spent on new workers or additional staff, larger sections of the population are given the opportunity to secure or improve their livelihood.

It is of vital importance to Smith that these surpluses are not spent on the personal luxuries of the entrepreneur or wealthy person, but that they benefit the worker. The increase of national wealth is thus one of the basic conditions for increasing employment, because "growth of income and capital means increase of national wealth, which in turn is the decisive condition for a growing demand for labour." A basic condition for this is to be seen in the sufficient number of adequately paid workers. The demand for labour is indirectly decisive for the growth of the population, and market forces regulate the wage for labour in such a way that it sufficiently feeds the required number of workers in the long run. In this process, according to Smith, there is a limit to the size of the wage-earning population by setting wages over certain periods of time.

> The liberal reward of labour, by enabling them to provide better for their children, and consequently to bring up a greater number, naturally tends to widen and extend those limits. It deserves to be remarked, too, that it necessarily does this as nearly as possible in the

> proportion which the demand for labour requires. If this demand is continually increasing, the reward of labour must necessarily encourage in such a manner the marriage and multiplication of labourers, as may enable them to supply that continually increasing demand by a continually increasing population. If the reward should at any time be less than what was requisite for this purpose, the deficiency of hands would soon raise it; and if it should at any time be more, their excessive multiplication would soon lower it to this necessary rate. The market would be so much understocked with labour in the one case, and so much overstocked in the other, as would soon force back its price to that proper rate which the circumstances of the society required. It is in this manner that the demand for men, like that for any other commodity, necessarily regulates the production of men; quickens it when it goes on too slowly, and stops it when it advances too fast. (I.viii, 40)

Even though Smith's analysis in this example is undisputedly correct, some of his formulations sound harsh and were read by later generations of readers as showing little compassion. However, in comparison with other authors of his time they are not unusual, because Smith recognises the real power relations that determine society. For the level of wages is negotiated by contract between workers and entrepreneurs and at that time before powerful unions entrepreneurs were in a better position for negotiation.

> What are the common wages of labour, depends everywhere upon the contract usually made between those two parties, whose interests are by no means the same. The workmen desire to get as much, the masters to give as little as possible. The former are disposed to combine in order to raise, the latter in order to lower the wages of labour.
>
> It is not, however, difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute, and force the other into a compliance with their terms. The masters, being fewer in number, can combine much more easily; and the law, besides, authorizes, or at least does not prohibit their combinations, while it prohibits those of the workmen. We have no acts of parliament against combining to lower the price of work; but many against combining to raise it. In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacturer, a merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. (I.viii, 11–12)

This description of power relations clarifies which professional group will have the upper hand in wage negotiations and the weak position of dependent workers is put into perspective by Smith's comment on government policies curtailing the rights of workers: "We have no acts of parliament against combining to lower the price of work; but many against combining to raise it." Smith's observations are not value free and point to the imbalance of fair legislation which operates to the detriment of workers.

But not only the general wage level is of interest, Smith also describes that different activities or work are paid differently. According to this, there are five reasons that lead to different wages.

> The five following are the principal circumstances which, so far as I have been able to observe, make up for a small pecuniary gain in some employments, and counterbalance a great one in others: first, the agreeableness or disagreeableness of the employments themselves; secondly, the easiness and cheapness, or the difficulty and expense of learning them; thirdly, the constancy or inconstancy of employment in them; fourthly, the small or great

> trust which must be reposed in those who exercise them; and, fifthly, the probability or improbability of success in them. (I.x.b, 1)

As in the discussion of the division of labour and its consequences, Smith discusses the difference between skilled and unskilled labour. A difference in wages is therefore justified because the training effort must be reflected in some form.

> The work which he learns to perform, it must be expected, over and above the usual wages of common labour, will replace to him the whole expense of his education, with at least the ordinary profits of an equally valuable capital. […]
>
> The difference between the wages of skilled labour and those of common labour is founded upon this principle. (I.x.b, 6–7)

Another important component in determining the wage is the cost of living. It is not the maximum income workers earn that is important, but how much they can buy for it.

> Though the variations in the price of labour not only do not always correspond with those in the price of provisions, but are frequently quite opposite, we must not, upon this account, imagine that the price of provisions has no influence upon that of labour. The money price of labour is necessarily regulated by two circumstances; the demand for labour, and the price of the necessaries and conveniences of life. (I.viii, 52)

Smith then explains how the interactions between the demand for labour, the associated fluctuating wages and food prices are to be situated in a temporal development.

> The scarcity of a dear year, by diminishing the demand for labour, tends to lower its price, as the high price of provisions tends to raise it. The plenty of a cheap year, on the contrary, by increasing the demand, tends to raise the price of labour, as the cheapness of provisions tends to lower it. In the ordinary variations of the price of provisions those two opposite causes seem to counterbalance one another, which is probably in part the reason why the wages of labour are everywhere so much more steady and permanent than the price of provisions. (I.viii, 56)

The real remuneration of labour, that is the amount of goods that a worker can afford has generally risen more than the nominal wage in Smith's time and even today. Also the development of real per capita income over the last 100 years confirms Smith's theory in *The Wealth of Nations* and thus refutes the immiseration thesis of Marxism, sometimes also called emiseration thesis. Smith notes that as the real wage increases, so does overall prosperity. He pays particular attention to the mass of the population, to "they who feed, clothe, and lodge the whole body of the people," to the workers who earn wages.

> Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society? The answer seems at first sight abundantly plain. Servants, labourers, and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged. (I.viii, 36)

Smith thus repeats the reasoning that Mandeville had already put forward in the "Fable of the Bees," that sufficient payment of the common people is not justified by the selflessness of the rich who pay fair wages out of sentimentality or a desire to do good, but by the simple realisation that only those who have money can spend it on new goods, possibly even on unnecessary luxury goods. And increased demand automatically generates increased production, which in turn guarantees generally increasing prosperity.

Smith regards the subsistence level as the lowest limit for remuneration and at the beginning of *The Wealth of Nations* he makes it unmistakably clear that every person is dependent on living from their work. The wage of the ordinary worker must at least secure the subsistence level, and not only his own, but also that of his family. If this minimum requirement is not met, the social group of workers cannot maintain itself and dies out, endangering the continuity of society as a whole. This statement in favour of adequate payment for workers in *The Wealth of Nations* is made quite unsentimentally on the basis of reason only. Experience and close observation of daily life shows, moreover, that sufficient remuneration of workers will be beneficial to society in the long run. Decisive for such considerations are, for example, the high infant mortality or the life expectancy of the different social classes as observed by Smith:

> But one half the children born, it is computed, die before the age of manhood. The poorest labourers, therefore, according to this account, must, one with another, attempt to rear at least four children, in order that two may have an equal chance of living to that age. (I. viii, 15)

And elsewhere he states:

> In some places one half the children born die before they are four years of age; in many places before they are seven; and in almost all places before they are nine or ten. This great mortality, however, will everywhere be found chiefly among the children of the common people, who cannot afford to tend them with the same care as those of better station. Though their marriages are generally more fruitful than those of people of fashion, a smaller proportion of their children arrive at maturity. In foundling hospitals, and among the children brought up by parish charities, the mortality is still greater than among those of the common people. (I.viii, 38)

Objectively and based solely on demographic data, without sentimentality but with an eye to a fair, just and prosperous community Smith outlines the framework of conditions that a society must create in its own interest in order to function properly. It is counterproductive and against the interest of employers or society in general to pay workers' wages that are below subsistence level. It is not only a question of ethics and the moral responsibility of entrepreneurs, but sufficient payment of even the weakest members of society is in the economic interest of society in general. For Smith both employers and the government have a social responsibility to ensure work for every member of society and for adequate wages. If in times of general prosperity all people benefit proportionally, ordinary workers and even the poor earn their livelihood, the situation changes in times of economic hardship. The majority of people are existentially threatened in such a case, because no other group suffers so terribly from an economic setback as workers and the poor.

In addition, workers generally tend not to be mobile. Relocating to the place where one gets the highest wage for the same work one is doing for less money is followed by only a few, in good times and bad, according to Smith's observation. When the prices of goods are different in other places one often spares no expense and effort to transport these goods for a greater profit. The same does not happen with one's own labour.

> After all that has been said of the levity and inconstancy of human nature, it appears evidently from experience that a man is of all sorts of luggage the most difficult to be transported. If the labouring poor, therefore, can maintain their families in those parts of the kingdom where the price of labour is lowest, they must be in affluence where it is highest. (I.viii, 3)

But when the poorer class of workers lives "in affluence" Smith observes other consequential phenomena. Here it is striking that his insights are grounded in social and psychological insights, which he repeatedly traces back to constants and human commonalities. It is his declared ambition in *The Wealth of Nations* to develop valid patterns of description that lead to a better understanding of society because they are based on certain recognisable, natural human characteristics. The striving for self-preservation is just as much a part of these aspects of human nature as the striving, justified by self-interest, to improve one's own situation and to have children.

> The liberal reward of labour, as it encourages the propagation, so it increases the industry of the common people. The wages of labour are the encouragement of industry, which, like every other human quality, improves in proportion to the encouragement it receives. A plentiful subsistence increases the bodily strength of the labourer, and the comfortable hope of bettering his condition, and of ending his days perhaps in ease and plenty, animates him to exert that strength to the utmost. Where wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious than where they are low […]. (I.viii, 44)

However, the incentive of a high wage, especially as a piece rate, must not lead to "excessive application." There are various causes of what might be called overexertion, arising from the nature and mentality of the worker as well as from the specific conditions of the work that needs to be done. Smith wishes to present a positive image of the worker at a time when the popular view of his (wealthy) readers may have been largely based on prejudice and hearsay rather than on the true behaviour of the general population and workers in particular. Again, Smith invokes "the voice of nature."

> Excessive application during four days of the week is frequently the real cause of the idleness of the other three, so much and so loudly complained of. Great labour, either of mind or body, continued for several days together, is in most men naturally followed by a great desire of relaxation, which, if not restrained by force or by some strong necessity, is almost irresistible. It is the call of nature, which requires to be relieved by some indulgence, sometimes of ease only, but sometimes, too, of dissipation and diversion. If it is not complied with, the consequences are often dangerous, and sometimes fatal, and such as almost always, sooner or later, brings on the peculiar infirmity of the trade. If masters would always listen to the dictates of reason and humanity, they have frequently occasion rather to moderate than to animate the application of many of their workmen. (I.viii, 44)

The worker, then, is not inherently lazy; compared to the active presence of this universally accepted prejudice in his time, Smith's statement is surprisingly clear. Since it is embedded in the discussion of wages, Smith can now illustrate how the economic implementation of self-interest reveals itself socially. The greatest incentive to work, in Smith's view, remains economic independence.

> Nothing can be more absurd, however, than to imagine that men in general should work less when they work for themselves, than when they work for other people. A poor independent workman will generally be more industrious than even a journeyman who works by the piece. The one enjoys the whole produce of his own industry; the other shares it with his master. The one, in his separate independent state, is less liable to the temptations of bad company, which in large manufactories so frequently ruin the morals of the other. The superiority of the independent workman over those servants who are hired by the month or by the year, and whose wages and maintenance are the same whether they do much or do little, is likely to be still greater. (I.viii, 48)

Smith's account of the complex effects of wage policy brings the crucial occupational groups into focus: workers on the one hand and entrepreneurs on the other. Smith famously begins *The Wealth of Nations* with his accurate account of the division of labour, and takes this as an opportunity to reflect on the implications of a change in the work habits of ordinary people and on human attitudes to work in general:

> A man commonly saunters a little in turning his hand from one sort of employment to another. When he first begins the new work he is seldom very keen and hearty; his mind, as they say, does not go to it, and for some time he rather trifles than applies to good purpose. The habit of sauntering and of indolent careless application, which is naturally, or rather necessarily acquired by every country workman who is obliged to change his work and his tools every half hour, and to apply his hand in twenty different ways almost every day of his life, renders him almost always slothful and lazy, and incapable of any vigorous application even on the most pressing occasions. (I.i, 7)

From an observation that is probably comprehensible to everyone because it is likely to be a universally valid statement on procrastination, Smith moves on to the simple farm labourer. Here he can draw on ideas and opinions that may have circulated as stereotypes about the lazy and indolent attitude of common peasants and farmhands. Smith uncovers the causes and reasons for a certain behaviour and in this case recognises the variety of activities performed in each case as the probable basis for the human attitude towards work. Thus, it is no longer the nature of the common people that makes them appear sluggish, ponderous and unwilling to work, but it is the specific form of their activity. It is not the peasant who is lazy, but his work that makes him so, just as it would shape and influence any other person.

Here Smith develops his first example of generally valid traits of human beings and makes statements about the nature of people in general, emphasising how important the respective occupation and thus the social environment are for certain characteristics. Whereas it had previously been assumed that a well-motivated person who goes about their work with prudence and planning can cope with a variety of different occupations easily and efficiently, Smith shows that it is mainly the

work itself that shapes people and not necessarily the nature of a particular social group.

What applies to work also applies to times of leisure, which were rare and very limited in Smith's time. It is by no means the case that the common people live for their pleasures only, as Smith shows. If the contemporary literature of the time stereotyped the working classes as exclusively focused on the satisfaction of their urges and thus reinforced the upper classes in their prejudice that the workers were lazy, comfortable and pleasure-seeking, Smith in *The Wealth of Nations* takes the opposite view.

In addition, he values mental and physical labour equally and sees that all work involves effort in its own way. Smith's account of the "voice of nature" points to universal statements about human beings and he sees commonalities that are not just occupational and group specific. For example, the almost irresistible need for relaxation is shared by all people, both those who work physically and those who work mentally. This statement is very important for his further reasoning, because Smith wants to determine the nature of all human beings in more detail. In order to do this, however, he must first show that despite all their differences, human beings nevertheless have things in common. And he has to convince a reading public of this, which, although the majority is quite open to ideals of the Enlightenment, is often stuck in a way of thinking that was strongly influenced by class conceit and ideas of natural superiority, intellectual and social arrogance and ignorance of other social classes.

It is to be understood that he frequently and vehemently advocates the recognition of the good and motivated work ethic of the common people in *The Wealth of Nations*. On the basis of his observations, however, he places the social responsibility for the welfare of the state and society in the hands of another social group. And entrepreneurs and merchants are treated by Smith in *The Wealth of Nations* with highly ambivalent feelings.

Questions

What is the significance of Adam Smith's distinction between the nature of work and the nature of the worker in his analysis?

What role does population growth play in determining wages, according to Adam Smith's analysis?

In Adam Smith's view, how do landowners and entrepreneurs influence workers' wages in modern society?

What role does capital accumulation play in determining wages and labour demand in Adam Smith's analysis?

How does Adam Smith use the comparison between England and North America to illustrate his economic theories?

What are Adam Smith's views on the responsibility of employers and the government in ensuring fair wages for workers?

What does Adam Smith identify as the consequences of economic stagnation in countries like China and Bengal?

How does Adam Smith explain the relationship between wage levels and the overall prosperity of a society?

According to Adam Smith, what effect does reinvesting surplus capital into businesses have on economic growth?

What reasons does Adam Smith identify for the differences in wages across various jobs or professions?

From Aristocracy to Meritocracy

Abstract Smith's moral philosophy underscores the importance of self-interest tempered by a concern for the common good. He questions the notion that the meritocracy, mainly merchants and entrepreneurs, always act in the public interest, warning against their influence on politicians and their ability to distort market forces for personal gain. Smith devotes significant attention to the rising class of professionals who have gained merits as merchants and entrepreneurs, integrating their role into various aspects of society. He distinguishes them from traditional views that devalued trade, recognizing the meritocracy as a separate social class characterized by their profit-driven activities. Their self-interest and risk-taking are essential for financing production and promoting economic growth.

However, he also notes the negative perception of "projectors," who engage in risky ventures often detrimental to the common good, potentially contributing to economic instability. Despite his criticisms, Smith recognizes the essential economic functions these groups perform, advocating for minimal political intervention and reliance on market forces to regulate competition and ensure social benefits. He emphasises the positive impact of entrepreneurs' prosperity, which he contrasts with the negative influence of landowners who reap benefits without contributing to economic progress.

He argues that landowners are passive in economic matters, benefiting without contributing to progress. The decline of impoverished gentry threatens rural economies, leading to higher rents and increased hardship for peasants and workers. The literature of the time reflects this decline, as rural workers struggle while social codes prevent gentry and members of the aristocracy from seeking employment. Smith praises entrepreneurs for revitalizing markets and contrasts their risk-taking with the conservative attitudes of landowners. He notes that wealthy merchants often gain social acceptance by purchasing estates or marrying into aristocracy. Competently and professionally managed estates by entrepreneurs improve agriculture, and are beneficial to communities and tenants, improving land management and in the long run benefiting society. Despite his scepticism towards landowners, Smith acknowledges their contributions but recognizes the contributions of entrepreneurs to economic development while emphasizing that private interests should not overshadow the common good.

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_8

In *The Wealth of Nations* entrepreneurs and merchants play a very important role because Smith sees them as central to the prosperity of the state. This view was shared by his contemporaries in eighteenth-century Britain as numerous references to their pivotal function are to be found in novels and essays of the time. Merchants present themselves as the engine of the tremendous and unprecedented economic boom that British commerce experienced in that century. They are the social force that came to threaten the established structures of the aristocracy. And they decisively changed British society in all areas of life with their economic thinking, commercial behaviour and especially with their professional attitude towards work. It is therefore crucial to know how Smith assesses the role of this important social group and how Smith's ideas of moral philosophy provide an explanatory framework for their behaviour. At the same time, few other occupations seem to evoke similarly ambiguous responses from the general public, especially in the context of the common good. Statements about the nature of human beings must therefore be reconsidered against the background of a highly successful merchant-mentality and its social consequences. Smith viewed merchants, entrepreneurs and overseas traders with great suspicion, but also paid them respect for the obvious contribution they made both nationally and internationally to maintaining the prosperity of nations.

The important role of merchants is evident in the many pages Smith devotes to them and their activities in *The Wealth of Nations*. While the first book and then large parts of the fifth are mainly devoted to workers and their role in society, there are comments on merchants throughout the entire *The Wealth of Nations*, and Smith specifically refers to merchants in almost every chapter. Apparently, there is not a single social, philosophical, economic or cultural area in which this professional group does not play a leading role. Smith sets himself apart from the traditional doctrine which, from antiquity via Thomas Aquinas to the physiocrats, generally regarded trade and merchants as unworthy of intellectual appreciation, without a positive role in and for society and therefore fundamentally reprehensible.

According to Smith, merchants and entrepreneurs form a separate social class alongside landowners and wage earners and they are characterised by certain socio-economic features. They live primarily from the profit they generate through their investments, they finance production, and they assess economic risks. In this way they make a considerable contribution to the prosperity of society because they enable, support and promote productive labour. All economic initiatives and "projects" of entrepreneurs are motivated by their self-interest and their interest in making a profit for themselves.

In eighteenth-century Britain, however, the notion of a "project" as a risky economic activity was not only seen in a positive light, for in many cases such projects were short-lived and had little relation to the common good. On the contrary, unscrupulous "projectors" embodied the negative form of the respectable and socially responsible entrepreneur and merchant. Smith describes how risky large-scale projects were financed with borrowed money and the projector hoped to collect an additional profit:

> The projectors, no doubt, had in their golden dreams the most distinct vision of this great profit. Upon their awaking, however, either at the end of their projects, or when they were no longer able to carry them on, they very seldom, I believe, had the good fortune to find it. (II.ii, 69)

While the projectors' own losses were usually limited, many unsuspecting investors were cheated out of their money and quite a few victims of projectors lost their homes and farms. In whatever form the social group of entrepreneurs and merchants appeared to the public, whether as projectors or honourable business partners, it is central that through their economic activities they influenced the welfare of the general public. Their greed, their power and their desire for profit combined with a central role in the economic structure of society show that the interest of this important social group is very different from that of the other two groups. The economic destiny of society as a whole is largely determined by a relatively small, but powerful group of professionals. Therefore in *The Wealth of Nations* Smith examines not only the economic conditions of a successful nation but also the behaviour and interests of its individual social groups. And his particular focus is on the depiction of all those mechanisms that lead people to see not only their own advantage but also that of the others or, if they are unwilling or unable to do so, to describe the social effects of human action for society as a whole.

In Smith's view, this thinking in terms of individual advantages—in some respects one may also speak of selfishness or egoism—is particularly pronounced among entrepreneurs. His well-known criticism of business collusion is therefore one of the most frequently quoted passages from *The Wealth of Nations*. Smith subsequently intensifies this judgement of conspiratorial entrepreneurial behaviour into his infamous polemic against those secret agreements that are being made at every available opportunity in the interests of businessmen and against the public good.

> It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies, much less to render them necessary. (I.x.c, 27)

Resignedly but quite realistically Smith has to conclude that such entrepreneurial machinations cannot be stopped even with stricter laws. At the same time he conveys the image of an entrepreneurial mentality that has already internalised economic thinking to such an extent that it influences all areas of life. Not only in business life, but also in the sphere of leisure, culture and entertainment Smith sees that a profit-oriented work ethic decisively shapes the thinking and actions of an important social group. His extremely negative phrase "a conspiracy against the public" at meetings of businessmen of the same trade highlights the danger of selfish and anti-social plans being hatched. His criticism demonstrates Smith's commitment to and advocacy of exposing (secret) motives. This also includes an honest assessment of one's own role in society and the honest self-representation in social interactions.

> Our merchants and master-manufacturers complain much of the bad effects of high wages in raising the price, and thereby lessening the sale of their goods both at home and abroad.

> They say nothing concerning the bad effects of high profits. They are silent with regard to the pernicious effects of their own gains. They complain only of those of other people. (I.ix, 24)

This statement contains a central criticism of the behaviour of entrepreneurs and merchants. For in the course of *The Wealth of Nations* he states that a moderate and healthy self-interest is not harmful, but that enrichment at the expense of others is morally and economically reprehensible. Those who, against their better judgement, harm the interests of the general public and seek to conceal this harm and who, on the contrary, portray themselves as suffering at the hands of others deserve in Smith's view the harshest criticism. Smith does not criticise the legitimate self-interest of the entrepreneur in generating wealth for himself and thereby, possibly without intending it and certainly unplanned, increasing the general welfare of the people. He condemns a double standard which is expressed with the aim of covering up and distorting facts.

Smith repeatedly deplores the naïve thinking of politicians and landowners in particular to lend their ear and trust to an influential minority of wealthy merchants. Those who approach a matter that promises them great profit with expertise and unquestionable competence must always be closely scrutinised for their true motives. This is why Smith warns politicians and other stakeholders like landowners and other non-professionals against the corrupting influence of merchants whose particular interests are often clearly at odds with the public interest:

> As during their whole lives they are engaged in plans and projects, they have frequently more acuteness of understanding than the greater part of country gentlemen. As their thoughts, however, are commonly exercised rather about the interest of their own particular branch of business, than about that of the society, their judgment, even when given with the greatest candour (which it has not been upon every occasion) is much more to be depended upon with regard to the former of those two objects than with regard to the latter. Their superiority over the country gentleman is not so much in their knowledge of the public interest, as in their having a better knowledge of their own interest than he has of his. It is by this superior knowledge of their own interest that they have frequently imposed upon his generosity, and persuaded him to give up both his own interest and that of the public, from a very simple but honest conviction that their interest, and not his, was the interest of the public. (I.xi.p, 10)

At least Smith concedes to those merchants the "honest conviction" that their own interest coincides with the public interest. Here a way of thinking becomes clear that describes the entrepreneurial spirit of the thoroughly economically oriented eighteenth century. Smith, however, continues this train of thought and shows that the rather simplified thinking of some merchants is detrimental to the interests of society. They may be satisfied with increases in turnover and ultimately their personal profit, but this clearly falls short of anything that is beneficial to society. He continues:

> The interest of the dealers, however, in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public. To widen the market and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the public; but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising

> their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens. The proposal of any new law or regulation of commerce which comes from this order ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it. (I.xi.p, 10)

There is no clearer warning than this. At the same time, Smith shows that at least parts of the dealers' arguments are justified. An extended market is indeed in the general interest. But if, and this is an accusation that is taken up again and again, they claim to be acting in the interest of the common good, then the accusation of immoral thinking and thereby deceiving the public weighs doubly heavy. Entrepreneurs and merchants are very well able to assess market dynamics and they have an interest "even to oppress the public." By deceiving others about their real motives they therefore deserve the public's "most suspicious attention."

And yet Smith remains objective and consistently applies his own liberal thinking even to areas where one would have expected harsher criticism. For after his critical remarks about the role of merchants, a call for state regulation of their activities would be only too understandable. But Smith shows that even in this area the regulating forces of the market can be at least partially effective. Competition among merchants leads to some kind of a balance of interests so that merchants promote the public good even though they are only pursuing their own self-interest. Ultimately, they ensure sufficient supply of goods and services for the market and that at a competitive price. In the sense of the invisible hand the market forces all participants to negotiate and adjust and it thereby regulates itself. Therefore, says Smith, there is not always an immediate need for political intervention when a particular social group threatens to become a problem. Often, the problem is solved precisely through political non-intervention in the interest of society.

> The prejudices of some political writers against shopkeepers and tradesmen are altogether without foundation. So far is it from being necessary either to tax them or to restrict their numbers that they can never be multiplied so as to hurt the public, though they may so as to hurt one another. The quantity of grocery goods, for example, which can be sold in a particular town is limited by the demand of that town and its neighbourhood. (II.v, 7)

In order to clarify this thesis Smith gives examples, discusses how capital is invested in trade and the effect of competition:

> If this capital is divided between two different grocers, their competition will tend to make both of them sell cheaper than if it were in the hands of one only; and if it were divided among twenty, their competition would be just so much the greater, and the chance of their combining together, in order to raise the price, just so much the less. Their competition might perhaps ruin some of themselves; but to take care of this is the business of the parties concerned, and it may safely be trusted to their discretion. It can never hurt either the consumer or the producer; on the contrary, it must tend to make the retailers both sell cheaper and buy dearer than if the whole trade was monopolized by one or two persons. (II.v, 7)

Now, although there is a clear difference between the group of shopkeepers and grocers on the one hand and wholesale merchants, overseas traders and entrepreneurs on the other Smith's account of the principle of competition within occupational groups is nevertheless viable here, too. For it is the invisible hand of the market that provides balance through competition and natural adaptation to changing circumstances. However, it also becomes clear that in a political context entrepreneurs know very well how to blur the differences between their own interests and those of the general public in order to influence the free play of competition.

Smith's criticism is thus twofold. On the one hand he resents the idea that a certain social group so blatantly puts its own interests before those of the general public. On the other hand, he repeatedly defends the principle of political non-interference and a liberal attitude to the mechanisms of the market, which he sees endangered by the attempts of entrepreneurs when they exert political influence. Their efforts to be listened to by ignorant and impressionable politicians and thus to override market forces through unilateral political interference meet with justified resistance from Smith:

> In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest. The proposition is so very manifest that it seems ridiculous to take any pains to prove it; nor could it ever have been called in question had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind. Their interest is, in this respect, directly opposite to that of the great body of the people. (IV.iii.c, 10)

Smith's image of the entrepreneur, overseas trader and merchant is shaped by his concern that political influence might distort competition. And this distortion of competition has adverse consequences for the majority of the population, the consumers, who are thus confronted with disadvantages as a result of biased political measures.

Smith is convinced that merchants are only interested in the consequences of their actions when restrictions reduce their profits or they see themselves threatened by competition. This analysis of the economic motives of entrepreneurs ties in with his portrayal of their analytical and professional acumen. Smith, the advocate of professionalisation through the division of labour in all fields sees how economic self-interest guides entrepreneurs and merchants as the most professionalised occupational group of the eighteenth century. In this case, too, it is experience and observation that lead to statements about the real world as he sees it:

> That foreign trade enriched the country, experience demonstrated to the nobles and country gentlemen as well as to the merchants; but how, or in what manner, none of them well knew. The merchants knew perfectly in what manner it enriched themselves. It was their business to know it. But to know in what manner it enriched the country was no part of their business. This subject never came into their consideration but when they had occasion to apply to their country for some change in the laws relating to foreign trade. It then became necessary to say something about the beneficial effects of foreign trade, and the manner in which those effects were obstructed by the laws as they then stood. To the judges who were to decide the business it appeared a most satisfactory account of the matter, when they were told that foreign trade brought money into the country, but that the laws in question hindered it from bringing so much as it otherwise would do. (IV.i, 10)

But it would certainly be unfair to derive from these statements a one-sided and negative image of entrepreneurs and merchants in *The Wealth of Nations*. In many of these rather critical passages and in addition to the clear warnings against unjustified and selfish influence Smith in no way gives the impression that entrepreneurs or especially merchants are not an economically or socially important group. Smith even takes their side when confronted with prejudices questioning their economic competence.

Because the idea that a large number of entrepreneurs and merchants went bankrupt rather frequently persisted in Britain throughout the eighteenth century. Daniel Defoe, who was not only a novelist but who also wrote numerous economic pamphlets and tried his hand at entrepreneurship himself, failed with his attempts at commercial success (although this did not stop him from continuing to write textbooks for entrepreneurs). Accounts of catastrophic effects of bankruptcies, the economic failure of numerous merchants and the dangers of international trade were probably exaggerated reports. Just as Smith's contemporaries complained about the growing crime rate and believed they were living in particularly dangerous times they also thought that large numbers of businesses failed. According to Smith, however, these were individual cases rather than a typical phenomenon of the eighteenth century.

> With regard to misconduct, the number of prudent and successful undertakings is everywhere much greater than that of injudicious and unsuccessful ones. After all our complaints of the frequency of bankruptcies, the unhappy men who fall into this misfortune make but a very small part of the whole number engaged in trade, and all other sorts of business; not much more perhaps than one in a thousand. Bankruptcy is perhaps the greatest and most humiliating calamity which can befall an innocent man. The greater part of men, therefore, are sufficiently careful to avoid it. Some, indeed, do not avoid it; as some do not avoid the gallows. (II.iii, 29)

In an age that saw the economically successful person as the high ideal having to declare financial bankruptcy was a serious social stigma that had to be avoided at all costs. The fact that entrepreneurs and merchants who declared bankruptcy were a minority can also be deduced from Smith's remarks about their professionalism and economic competence. And for this reason, every entrepreneur had to realise that although the desired capital gain increased with the risk taken in a specific business transaction, it did not necessarily increase proportionally.

> The ordinary rate of profit always rises more or less with the risk. It does not, however, seem to rise in proportion to it, or so as to compensate it completely. Bankruptcies are most frequent in the most hazardous trades. The most hazardous of all trades, that of a smuggler, though when the adventure succeeds it is likewise the most profitable, is the infallible road to bankruptcy. (I.x.b, 33)

Only irresponsible projectors who are prepared to take any risk for the sake of a quick and high profit will turn to illegal business. The incalculable risk of such an investment is, in Smith's view, repugnant to the large group of successful entrepreneurs and merchants who are too concerned with their own welfare to expose themselves and their families to the risk of bankruptcy. For Smith they often act out of self-interest, and it may have seemed paradoxical to Smith's contemporaries that the

prosperity of the entrepreneur in turn has positive effects on society as a whole, as Smith shows.

The reward of entrepreneurs and merchants is profit which belongs to them and them alone. It is not deducted from wages or land rent, it is subject to great fluctuations often dependent on chance and it is the wage of entrepreneurial anxiety. For Smith, however, capital profit is not the remuneration for the activity of the entrepreneur and merchant:

> The profits of stock, it may perhaps be thought are only a different name for the wages of a particular sort of labour, the labour of inspection and direction. They are, however, altogether different, are regulated by quite different principles, and bear no proportion to the quantity, the hardship, or the ingenuity of this supposed labour of inspection and direction. They are regulated altogether by the value of the stock employed, and are greater or smaller in proportion to the extent of this stock. (I.vi, 6)

Smith does not distinguish between interest on capital and wages for entrepreneurial activity. However, even at the time of the beginning of industrialisation, self-financing was dominant because entrepreneurs invested their own capital and received a profit. Even if high profits may be gained by strategic investment, they do not necessarily generate a reliable income, but there is always an element of good fortune and this seems to have made them so attractive to merchants and entrepreneurs.

> It is affected not only by every variation of price in the commodities which he deals in, but by the good or bad fortune both of his rivals and of his customers, and by a thousand other accidents to which goods when carried either by sea or by land, or even when stored in a warehouse, are liable. It varies, therefore, not only from year to year, but from day to day, and almost from hour to hour. (I.ix, 3)

Profit is the remuneration for the efforts, time and risks of the entrepreneur. On the one hand it is the remuneration for entrepreneurial tasks such as supervision and management. This part of the profit is comparable to the entrepreneur's wages that one would have to pay if one were to employ dependent managers. Secondly, profit is the interest on capital for the use of money. Only when external capital is used does Smith refer to this return as interest.

> The revenue derived from labour is called wages. That derived from stock, by the person who manages or employs it, is called profit. That derived from it by the person who does not employ it himself, but lends it to another, is called the interest or the use of money. (I.vi, 18)

This fluctuates depending on whether it is a promising and profitable business or whether there are less promising prospects for profit.

> It may be laid down as a maxim, that wherever a great deal can be made by the use of money, a great deal will commonly be given for the use of it; and that wherever little can be made by it, less will commonly be given for it. (I.ix, 4)

Smith does not distinguish between entrepreneurial profit and interest on capital. Interest is only paid on borrowed capital. Strictly speaking a certain interest should also be charged on personally employed capital. However, the profit would then

compensate for or be higher than the occasional losses that can occur in the case of capital fluctuations:

> The lowest ordinary rate of profit must always be something more than what is sufficient to compensate the occasional losses to which every employment of stock is exposed. (I.ix, 18)

It is crucial that capital needs to be accumulated first and of course a large fortune generates a higher profit than a small one. Smith uses this proverbial observation as the basis for a differentiated view in which he relates diligence and the amount of invested capital to each other.

> It is with industrious nations who are advancing in the acquisition of riches as with industrious individuals. A great stock, though with small profits, generally increases faster than a small stock with great profits. Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little. (I.ix, 1)

Smith's analytical procedure reveals itself in such passages: he builds his analysis on generally accepted truths that underlie a verifiable observation and are so well known and common that they have become proverbial, and Smith may use the highly simplified popular image of money personified—the alliteration in "money makes money" renders the phrase all the more memorable. Smith observes that in some cases the profit margin becomes smaller as entrepreneurs make high profits in one area and consequently accumulate more and more capital. He explains this by looking at an increase in competition: once word has got around that a lot of money is being made in a specific area, new entrepreneurs enter the market who also want to make a large profit. As a result of this increasing competition the profit for each individual entrepreneur gets smaller.

> When the stocks of many rich merchants are turned into the same trade, their mutual competition naturally tends to lower its profit; and when there is a like increase of stock in all the different trades carried on in the same society, the same competition must produce the same effect in them all. (I.ix, 2)

Both wages and profits influence the prices of goods. If higher profits can be earned in a trade this usually leads to an increase in prices rather than in higher wages. However, since Smith usually expands his economic analysis by adding observations and psychological insights, he also analyses the interaction of merchants and politicians. He is particularly interested to note that vocal rich professionals are very good at influencing politics. Precisely those whose voices are heard in public and who are being talked to by politicians are of interest to him. Merchants and manufacturers often do not talk about the connection between price and profit. On the contrary, they mainly complain about rising wages.

> In raising the price of commodities the rise of wages operates in the same manner as simple interest does in the accumulation of debt. The rise of profit operates like compound interest. Our merchants and master-manufacturers complain much of the bad effects of high wages in raising the price, and thereby lessening the sale of their goods both at home and abroad. They say nothing concerning the bad effects of high profits. They are silent with regard to the pernicious effects of their own gains. They complain only of those of other people. (I.ix, 24)

The impact of high profits generated by merchants and entrepreneurs on society, however, represents only part of Smith's extensive critique. It becomes clear from the complex image of the meritocracy in *The Wealth of Nations* that Smith is well aware of their importance for the society of the eighteenth century. Their central role in building the wealth of nations, and here especially British wealth, is made abundantly clear in his writings as Smith sees the fundamental economic importance of entrepreneurs and merchants. It is rather his concern for the moral integrity of all those who, endowed with power, expertise and abundant capital find themselves in a position to influence political decisions in a direction favourable to them that motivates his critical take on their true motives.

Apart from the temptation to enrich themselves through immoral behaviour at the expense of the general public, the majority of well-educated, well-informed and risk-taking entrepreneurs also brings wealth to the aristocracy and landed gentry who are traditionally conservative and usually without professional expertise. This group increasingly faced financial difficulties or even ruin in eighteenth-century Britain.

The workers receive wages, the entrepreneurs and merchants earn profits, and the members of the third major social group, the landowners, receive rent for land. The rent is the price paid for the use of land, because as soon as:

> the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. The wood of the forest, the grass of the field, and all the natural fruits of the earth, which, when land was in common, cost the labourer only the trouble of gathering them, come, even to him, to have an additional price fixed upon them. He must then pay for the licence to gather them; and must give up to the landlord a portion of what his labour either collects or produces. This portion, or, what comes to the same thing, the price of this portion, constitutes the rent of land, and in the price of the greater part of commodities makes a third component part. (I.vi, 8)

Although he is very sceptical of landowners and the rent for land they levy Smith's analysis is as usual objective and shows that this form of rent depends on two factors. On the one hand the fertility of the land is decisive for the amount of rent that can be gained by the landowner and, on the other hand, the location of the land is important. So the rent for land needs to be calculated on the basis of fertility and location.

> The rent of land not only varies with its fertility, whatever be its produce, but with its situation, whatever be its fertility. Land in the neighbourhood of a town gives a greater rent than land equally fertile in a distant part of the country. Though it may cost no more labour to cultivate the one than the other, it must always cost more to bring the produce of the distant land to market. A greater quantity of labour, therefore, must be maintained out of it; and the surplus, from which are drawn both the profit of the farmer and the rent of the landlord, must be diminished. (I.xi.b, 4)

Of course the location of land cannot be changed, but improvements in infrastructure and general progress in transport may raise the value of a previously remote area quite considerably.

> Good roads, canals, and navigable rivers, by diminishing the expense of carriage, put the remote parts of the country more nearly upon a level with those in the neighbourhood of the town. They are upon that account the greatest of all improvements. They encourage the cultivation of the remote, which must always be the most extensive circle of the country. They are advantageous to the town, by breaking down the monopoly of the country in its neighbourhood. They are advantageous even to that part of the country. Though they introduce some rival commodities into the old market, they open many new markets to its produce. (I.xi.b, 5)

Smith then explains in great detail the various products and their development over time. He distinguishes between products that yield a constant return and those that only occasionally yield a return. The first category includes foodstuffs such as cereals, vegetables and wine, but livestock is also among such products.

> Human food seems to be the only produce of land which always and necessarily affords some rent to the landlord. Other sorts of produce sometimes may and sometimes may not, according to different circumstances. (I.xi.c, 1)

Among the products which, according to Smith's observations, only occasionally yield rent are clothing and building materials, but also the products of mining such as coal, precious stones and metals. Food, on the other hand, is always needed and therefore guarantees a constant rent because "always and necessarily" people must consume food. Smith knows and discusses people's almost insatiable desire for luxuries elsewhere in *The Wealth of Nations* and states with amused satisfaction that in contrast to luxury goods there is a natural limit to the demand for food—the size of the stomach. The consumption of food does create a permanent demand, but it remains within biologically calculable limits. However, those who have more food than they can consume will usually sell the surplus at a profit.

The production of food has other consequences which are usually not planned by the farmer but have beneficial effects. For example, a steady supply of food as a result of improved land use also increases the demand for other products. Economic progress needs basic materials as well as additional goods for a growing population since the market is constantly expanding.

> As art and industry advance, the materials of clothing and lodging, the useful fossils and minerals of the earth, the precious metals and the precious stones should gradually come to be more and more in demand, should gradually exchange for a greater and a greater quantity of food, or in other words, should gradually become dearer and dearer. (I.xi.d, 1)

However, this is only true if the traditionally conservative landowners and landed gentry do not hinder progress and if the supply of basic commodities does not increase, because as a rule only what is scarce, rare and in demand everywhere becomes more expensive. But when the price of food falls, landowners are forced to make increased efforts to farm their land efficiently.

Smith shows that if you look at all raw products comparatively, there are three distinct groups that differ fundamentally in the amount they can produce. This has a major impact on the development of prices:

> These different sorts of rude produce may be divided into three classes. The first comprehends those which it is scarce in the power of human industry to multiply at all. The second,

> those which it can multiply in proportion to the demand. The third, those in which the efficacy of industry is either limited or uncertain.
>
> In the progress of wealth and improvement, the real price of the first may rise to any degree of extravagance, and seems not to be limited by any certain boundary. That of the second, though it may rise greatly, has, however, a certain boundary beyond which it cannot well pass for any considerable time together. That of the third, though its natural tendency is to rise in the progress of improvement, yet in the same degree of improvement it may sometimes happen even to fall, sometimes to continue the same, and sometimes to rise more or less, according as different accidents render the efforts of human industry, in multiplying this sort of rude produce, more or less successful. (I.xi.j, 1)

As the price of agricultural products varies, so does the rent for landowners. In the long run Smith thinks that the rent will rise, because he assumes that prices for agricultural products will also rise due to the increasing population. This will have an adverse effect on prices of industrial products as they will fall because more can be produced due to an increasing division of labour and technological progress. A long-term effect might be an increase in rent from the many workers seeking accommodation. This would in turn increase the income of landlords and allow them to purchase more commercial products or luxuries.

> All those improvements in the productive powers of labour, which tend directly to reduce the real price of manufactures, tend indirectly to raise the real rent of land. The landlord exchanges that part of his rude produce, which is over and above his own consumption, or what comes to the same thing, the price of that part of it, for manufactured produce. Whatever reduces the real price of the latter, raises that of the former. An equal quantity of the former becomes thereby equivalent to a greater quantity of the latter; and the landlord is enabled to purchase a greater quantity of the conveniences, ornaments, or luxuries, which he has occasion for. (I.xi.p, 4)

This is a decisive argument for Smith who presupposes a positive attitude towards "conveniences, ornaments, or luxuries" amongst landowners and the landed gentry. This is prompted by the improvement of productive forces and not by any activity of the landowners themselves. Smith concludes that this social group is made up of people who are rather passive in economic matters and who have neither the business acumen of entrepreneurs nor the labourers' will or existential necessity for hard work. Landowners reap where they have never sown, he claims indignantly at the outset of his text and their anti-progressive insistence on antiquated views and techniques ultimately leads to economic and social demise in his analysis.

The many impoverished members of the landed gentry or the aristocracy who were able to maintain themselves on small estates more poorly than well form the majority of rural landowners. With the slow economic decline of this group, the entire social network of rural areas came under threat: an impoverished landowner had to extract more and more rent from his peasants. The rural workers and craftsmen found it ever more difficult to earn a living and with this the rural exodus increased. Ultimately, barren lands were no longer cultivated. The vicious circle of outdated farming methods, entrepreneurial incompetence of the landed gentry and lack of capital drove large parts of Britain further and further into financial decline and ultimately, into ruin.

The literature of the time is full of examples of impoverished rural gentry losing house and farm, tenant farmers and peasants starving and moving to the early industrial areas or the slums around larger cities. For despite all the economic hardship, it was not possible for the lower rural nobility to try their hand at gainful employment: social codes and the rules of their profession did not allow it. They could not engage in any paid activity as merchants or traders without losing their social status. Economic decline was therefore inevitable. Here Smith saw the greatest merit of entrepreneurs who, for very different reasons and motives, as meritocratic professionals opened up new markets. Smith describes a historical phenomenon from an economic point of view and, through his observations of events he might have witnessed first-hand, arrives at an analysis of social developments as was hinted at but never systematically thought through or clearly formulated in the numerous journals of the eighteenth century. Smith observes that:

> the wealth acquired by the inhabitants of cities was frequently employed in purchasing such lands as were to be sold, of which a great part would frequently be uncultivated. Merchants are commonly ambitious of becoming country gentlemen, and when they do, they are generally the best of all improvers. A merchant is accustomed to employ his money chiefly in profitable projects, whereas a mere country gentleman is accustomed to employ it chiefly in expense. The one often sees his money go from him and return to him again with a profit; the other, when once he parts with it, very seldom expects to see any more of it. Those different habits naturally affect their temper and disposition in every sort of business. A merchant is commonly a bold, a country gentleman a timid undertaker. (III.iv, 3)

The respective different temperaments of the merchant and members of the aristocracy become clear in the attitude to the management of an estate. Smith contrasts risk-taking with conservative thinking and perseverance, and he shows how an understanding of investment and the handling of capital acquired in business life puts the merchant in a superior position:

> [A merchant] is not afraid to lay out at once a large capital upon the improvement of his land when he has a probable prospect of raising the value of it in proportion to the expense. The other, if he has any capital, which is not always the case, seldom ventures to employ it in this manner. If he improves at all, it is commonly not with a capital, but with what he can save out of his annual revenue. Whoever has had the fortune to live in a mercantile town situated in an unimproved country must have frequently observed how much more spirited the operations of merchants were in this way than those of mere country gentlemen. The habits, besides, of order, economy, and attention, to which mercantile business naturally forms a merchant, render him much fitter to execute, with profit and success, any project of improvement. (III.iv, 3)

Historically, there were only two ways for rich merchants to enter socially accepted circles. Either they bought a country estate and lived a life of leisure, or they married off their daughter to an impoverished aristocrat; the dowry was considered a welcome investment. Many wealthy members of the nouveau riche who found that they were not socially accepted (or who did not have eligible daughters) therefore chose to buy their own estates. As early as the first half of the eighteenth century entrepreneurs discovered the potential of professionally and competently managed estates. Not only did they acquire influence and social prestige, but a bold merchant, as Smith says, may well profit from his land through improved "order, economy and attention."

The more competently estates are managed, however, the more profits go to the neighbourhood and tenant farmers. In this way self-interested entrepreneurs brought about a professionalisation of agriculture which had a positive effect on large areas of Great Britain. Smith's words of appreciation for a social group that he otherwise viewed rather sceptically cannot be overestimated. Smith would not be Smith, however, if he did not put such economically and socially undisputed achievements into perspective.

> Our manufacturers have no doubt great merit with their country, but they cannot have more than those who defend it with their blood, nor deserve to be treated with more delicacy. (IV.ii, 42)

At least from Smith's point of view the representatives of commerce cannot expect greater consideration when, against their better judgement, they put private interest before the general interest. However, Smith is strictly impartial in *The Wealth of Nations* and popular misjudgements prompt him to correct popular opinions. It is therefore particularly interesting to see how Smith deals with the image of women in his time.

Questions

How do merchants and entrepreneurs contribute to the prosperity of a nation according to Adam Smith, and what are some of the moral and social ambiguities surrounding their role?

According to Adam Smith, why is it crucial for surpluses to be reinvested in businesses rather than to be spent on personal luxuries by entrepreneurs?

How does competition affect profit margins according to Adam Smith?

What role do landowners play in the economic landscape of eighteenth-century Britain, and how does Adam Smith view their impact?

How do successful merchants contribute to the professionalisation of agriculture in Britain?

What is the distinction Adam Smith makes between profit and interest in the context of entrepreneurial activity?

How does the location of land affect its rent, and what external factors might increase the value of land in remote areas?

What is the difference between products that yield a constant return and those that only occasionally yield a return, according to Adam Smith?

What is Adam Smith's stance on political interference in the market, and why does he argue that such interference could be detrimental to society?

How does Adam Smith reconcile his criticism of selfish entrepreneurial behaviour with his recognition of the economic contributions of merchants and entrepreneurs to society?

Women

Abstract In eighteenth-century Britain, women were largely excluded from public life, political participation and education, with social and cultural expectations confining them to the domestic sphere. They were dependent on male relatives and were considered unfit for academic training in a patriarchal society. Mary Wollstonecraft's "*A Vindication of the Rights of Women*"challenges this marginalization, advocating for women's education and broader social participation.

She argues that their potential was stifled by systemic gender inequality and that their subordination was reinforced by a patriarchal society that systematically excluded women from intellectual, political, and academic pursuits. Smith's discussion of the lack of university education for women exclusively foregrounds usefulness, stressing the advantages of social training over academic education. Women's contributions to the market were mostly ignored, with the notable exception of Adam Smith who acknowledges the exploitation of poor workers, in this context specifically highlighting the role of women, who laboured in domestic settings but received no social protection or recognition.

The same goes for women from wealthier backgrounds, who were also excluded from public life, living lives focused on domesticity and marriage, and often depicted as mere consumers of luxury goods. Contemporaries of Smith like James Steuart view women as largely irrelevant in the political sphere, focusing instead exclusively on the economic activities of men. While these ideas reflect the dominant patriarchal mindset of the time, they also highlight the systemic exclusion of women from broader social and economic roles. Only later did economists and society begin to recognize the economic and social contributions of women, both as producers and consumers.

> Peachum: And how do you propose to live, Child?Polly: Like other Women, Sir, upon the Industry of my Husband. (I, 10)

These lines from Thomas Gay's *The Beggar's Opera* illustrate a dilemma women in the eighteenth century were not supposed to work, but relied on male support.

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_9

And because women were considered unfit for academic training and education in a patriarchal society they were completely dependent on their fathers or husbands as providers. Relegated to a subordinate role, especially in politics, public discourse and intellectual life, women were denied a say in political affairs and had no prospect of a university education.

This systemic marginalization is poignantly reflected in Mary Wollstonecraft's *A Vindication of the Rights of Women, with Strictures on Political and Moral Subjects* written in 1792, which emerges as a crucial counter-narrative to the dominant discourse on female marginalisation. Wollstonecraft, an English political writer and early feminist, wrote her influential study as a response to the debate on women's education that came up during the French Revolution and became a highly contested topic in Britain. In her text Wollstonecraft draws on one of the most respected philosophers of the time to enhance her argument:

> To support my opinion I can produce very respectable authority; and the authority of a cool reasoner ought to have weight to enforce consideration […]. (8,11)

This authority, of course, is Adam Smith, and in particular his take on social dynamics in the eighteenth century mainly, but not exclusively, in his *Theory of Moral Sentiments*. Wollstonecraft then continues by quoting Smith:

> When do we hear of women, who starting out of obscurity, boldly claim respect on account of their great abilities or daring virtues? Where are they to be found? 'To be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation, are all the advantages which they seek.' True! my male readers will probably exclaim; but let them, before they draw any conclusion, recollect, that this was not written originally as descriptive of women, but of the rich. In Dr. Smith's *Theory of Moral Sentiments*, I have found a general character of people of rank and fortune, that in my opinion, might with the greatest propriety be applied to the female sex. (4,22)

It is indicative that Wollstonecraft choses a passage depicting the male elite to illustrate her point about the marginalisation of women in a patriarchal society. Because for Wollstonecraft, women have potential but are not only underrepresented in public life, they are also virtually absent from any discussion and analysis of society, economy and the state. And this is primarily due to a lack of education.

Women of all social classes received little formal education in eighteenth-century Britain, as they were considered sufficiently educated with skills such as dancing, embroidery and singing—women were forbidden to attend university and got very little schooling. Against the backdrop of his critical attitude towards universities and what he sees as a completely useless education for young men, Smith states in *The Wealth of Nations*:

> There are no public institutions for the education of women, and there is accordingly nothing useless, absurd, or fantastical in the common course of their education. They are taught what their parents or guardians judge it necessary or useful for them to learn, and they are taught nothing else. Every part of their education tends evidently to some useful purpose; either to improve the natural attractions of their person, or to form their mind to reserve, to modesty, to chastity, and to economy; to render them both likely to become the mistresses of a family, and to behave properly when they have become such. In every part of her life a woman feels some conveniency or advantage from every part of her education. It seldom

> happens that a man, in any part of his life, derives any conveniency or advantage from some of the most laborious and troublesome parts of his education. (V.i.f, 47)

This justification for paternalism in general and discrimination of women in particular is typical in the context of the eighteenth century. It is based on a view of humanity that grants all people appropriate participation in society according to their (perceived) abilities and achievements. And in a patriarchal society, which was strictly divided into a domestic-private and a public-representative sphere, women were flatly denied social, cultural, economic and legal participation by men—women were relegated to the domestic sphere. Thus, they play a limited role in *The Wealth of Nations* and in that the portrayal of women corresponds to a universally accepted view of social order at the time. And if they do appear, it is not as individual persons, but as members of two different groups only.

For Smith and his contemporaries there are two groups of women in eighteenth-century society: the first group and large majority are poor, hard-working, barely literate women with many children. These women stayed at home and, for lack of other opportunities and out of sheer economic necessity, busied themselves with simple menial jobs that require little to no training or prior investment in the form of tools. They usually had no formal training, they were not organized and had no political representation, laboured with little protection against exploitation and were totally dependent on their husbands. They ran the household, organized food and did the cooking, together with their children supplemented the family income but had no say in financial matters, let alone politics. They had no right to vote and, if without a family, single women especially were at the mercy of a society that saw them as inferior and treated them accordingly. In his novel *Moll Flanders*, written from the perspective of a poor woman in eighteenth-century Britain, Daniel Defoe depicts the fate of these women most strikingly and for the first time gives them a face, a name, and a personal history. And in her narrative the protagonist Moll Flanders herself states that "if a woman has no friend to communicate her affairs to, and to advise and assist her, 'tis ten to one but she is undone," which is tragically exemplified by Moll Flanders herself. She, like many women of her time who were mostly relegated to home and field or exploited in menial jobs, had no prospects and often faced a grim fate. They had little rights, virtually no social leverage or political say and for lack of education no way of improving their situation.

Interestingly, in his economic analysis of eighteenth-century society Smith groups poor working women together with working men, both "without support or protection" against exploitation by "our great master manufacturers," although they contribute to the general economy. In the context of manual labour Smith describes the situation of many of the people that contributed significantly to the wealth of the nation at that time. He deplores that

> […] our spinners are poor people, women commonly scattered about in all different parts of the country, without support or protection. It is not by the sale of their work, but by that of the complete work of the weavers, that our great master manufacturers make their profits. As it is their interest to sell the complete manufacture as dear, so is it to buy the materials as cheap as possible. […] They are as intent to keep down the wages of their own weavers as the earnings of the poor spinners […]. It is the industry which is carried on for the benefit

> of the rich and the powerful that is principally encouraged by our mercantile system. That which is carried on for the benefit of the poor and the indigent is too often either neglected or oppressed. (IV.viii)

For Smith's time this is a surprisingly political statement, critical of the prevalent form of systematic exploitation of both men and women. The fact that Smith explicitly mentions spinners who are poor workers, "women commonly scattered about in all different parts of the country, without support or protection," draws attention to the fact that women do contribute to the benefit of society at large, although they are usually invisible. Smith's contemporary James Steuart, for instance, does not mention working women at all.

In contrast, Smith is the much more analytical thinker and his observation of society takes note of the structural differences between the large group of poor people, followed by those who work for wages, and finally the meritocracy, gentry and aristocracy. Of particular interest therefore are those sections in *The Wealth of Nations* in which one would expect women and children to be mentioned because they contribute to the wealth the nation, but are left out and do not appear, even though we now know that they played a significant social and a considerable economic role. Smith mentions in passing only the economic importance of home-based work and child labour. He describes, for men and women alike, that many people continue to work in a domestic setting after the actual work is done:

> A great part of the extraordinary work, besides, which is probably done in cheap years, never enters the public registers of manufactures. The men servants who leave their masters become independent labourers. The women return to their parents, and commonly spin in order to make clothes for themselves and their families. […] The produce of their labour, therefore, frequently makes no figure in those public registers of which the records are sometimes published with so much parade, and from which our merchants and manufacturers would often vainly pretend to announce the prosperity or declension of the greatest empires. (I.viii, 5)

"The produce of their labour," Smith emphasises, "frequently makes no figure in those public registers of which the records are sometimes published with so much parade," and it becomes clear that Smith's account and analysis are based on empirical evidence, the social and economic reality of his time. But official statistics and surveys mostly did not cover home-based work, although it was important for the subsistence of the majority of the population. It is therefore all the more remarkable that the share of women's work is indeed perceived, although no decisive role is attributed to it. And in Smith's time women's work was simple, manual and domestic work; there were no female teachers or female doctors, no female politicians and of course no female entrepreneurs.

In Smith's well-known example of the division of labour, for instance, he describes in minute detail the production of pins. He famously begins "a workman not educated to this business […] could scarce, perhaps, with his utmost industry, make one pin in a day, and certainly could not make twenty." The text depicts a male worker, a skilled craftsman possibly in a workshop, although the production of pins is not physically demanding work, and it does not require sophisticated or large machinery—it might possibly be done at home. It can therefore be assumed that this

manufacturing process as well as others were largely carried out by women and children in a domestic setting. In order to secure the livelihood of the family women's and children's work was widespread in certain areas of the economy, as we know today.

At the same time, it is highly likely that pins were mostly used by women because most clothing was made at home and, because of the high prices for fabrics, clothing was often reworked and worn much longer than today. It is therefore striking that Smith, in his central example of the division of labour, depicts a process of pre-industrial production that involves mainly women and children. And this process of production also serves to manufacture a product typically bought and used by women. Smith, however, does not say a word about the central economic role of female producers and consumers. The fact that women were primarily involved in every step from production to purchase to use, without even a passing mention of them in this central example of *The Wealth of Nations*, was certainly not as remarkable to Smith's contemporaries as it is to modern readers.

There was, however, a second group of women in the eighteenth century. These women had little education as well, but they were financially well off. They came from rich families and grew up in splendid isolation, some tutored in foreign languages, some had piano lessons, they painted, embroidered, did charitable work and supervised the servants. When their brothers went up to university these young ladies waited for proposals of marriage, based on their looks and their fathers' fortunes. Once married, they played important roles in society as decorative trophy wives of successful men or, later, as rich dowagers, but they also had no political say. In the patriarchal society of the eighteenth century these women suffered no financial hardship, but were denied an education; it was also impossible for them to work or play a public role. Just like poor women these ladies led domestic lives but they were seen as prototypical consumers of luxury goods, so that much of the criticism levelled at frivolous lifestyles seems to be directed at these women. At best these "public spirited ladies", as James Steuart calls them since they belong to "the principal people" of a country may indulge in benevolent acts of mercy towards the poor.

> I shall now suppose our modern policy to inspire an ingenious or public spirited lady to set up a weaver or two at a farm-house. […] The spirit therefore of the principal people of a country determines the employment of the lower classes; the employment of these determines their usefulness to the state, and their usefulness, their multiplication. The more they are useful, the more they gain, according to the definition of the contract of society; the more they gain, the more they can feed; and consequently the more they will marry and divide with their children. (16, 8)

Steuart's passage from *An Inquiry into the Principles of Political Economy* begins with a patronizing suggestion to sentimental rich women who might want to do good and indulge in some charity, and it ends in an analysis of the social contract. But the passage primarily displays contempt towards the lower classes ("a weaver or two") and goes to show that women, even the rich, have little say in politics. This is the only instance in Steuart's entire *Inquiry* that women are mentioned at all.

Women generally played a subordinate role in eighteenth-century Britain, at least in politics, public and intellectual life. This absence can be felt in *The Wealth of Nations*, for here too Smith is an attentive and yet critical observer of his time. But the omission and disregard of a particularly important group of the population is not an oversight or ideological problem in Smith's work; rather, it documents a general understanding in the eighteenth century that did not see women as socially equal and as important economic partners. Smith may, of course, have internalized the prevailing cultural view about women, but it seems more likely that he depicted and analysed a widespread view held by men at the time that women did not form a central economic factor. This patriarchal view of society prevailed until the twentieth century, and only later generations of economists recognised the economic potential of women as producers and especially as a large group of consumers.

Questions

How do Adam Smith's observations reflect the broader social dynamics and the role of women in eighteenth-century Britain, and in what ways does it illustrate the patriarchal society of his time?

What are the similarities and differences between poor women and poor men in the context of labour in the eighteenth century?

Why are women the weakest link in labour relations although they contribute significantly to domestic production?

What are Adam Smith's views on the systemic marginalization of women, and in particular on the education of women?

In how far does domestic work contribute to the wealth of a nation, and why do women and children play a significant role in this context?

Why does Mary Wollstonecraft, in her "A Vindication of the Rights of Women"refer to Adam Smith, and how does she challenge the patriarchal views of his time and the marginalization of women in the eighteenth century?

Although Adam Smith shares his male contemporaries' views on the social role of women, in contrast to James Steuart he does not adopt a patronizing attitude towards them and does see their economic role. Explain.

Does Adam Smith differentiate between poor women and wealthy ladies, and what are the social and economic effects of their different roles?

What is the significance of Adam Smith's omission of women in his example of the division of labour, particularly in the production of pins?

What position did women in the eighteenth century typically occupy in society, and how does Adam Smith view their role in his economic analysis?

Parsimony, Wealth, Luxury

Abstract Smith emphasises the importance of sufficient capital for economic prosperity, which is achieved through saving rather than consumption. He argues that both individual means and the prosperity of society as a whole arise from the accumulation and productive use of capital, condemning prodigality and idle capital as obstacles to economic growth. Smith extols thrift, drawing on Puritan values, and contrasts it with wasteful behaviour, which harms society. He critiques government mismanagement of finances, stressing that the economic competence and thriftiness of individuals sustain the state. Smith also elaborates on the structure of wealth, distinguishing between immediate consumption, capital for income generation, and non-consumed items.

Smith's macroeconomic perspective includes a detailed analysis of circulating capital, which generates income only when it moves through various hands. He differentiates between productive and unproductive labour, with the former increasing national wealth by creating durable goods. He critiques state intervention in capital flows, advocating for economic freedom and natural investment courses.

Smith's nuanced examination of luxury reveals it as both an economic and moral issue. He refutes Bernard Mandeville's extreme view that all non-essential consumption is luxury, instead recognizing the social and economic roles of luxury goods. Smith argues that while luxury can promote employment and economic activity, moderation and self-control are crucial for individual well-being and the advancement of society. He suggests that social norms and economic conditions define what constitutes luxury, which evolves over time.

Smith's insights into consumer behaviour and the impact of luxury on society lead to his advocacy for rational, moderate consumption. He suggests that appeals to reason and self-control can channel human impulses into socially beneficial actions. Taxes on luxury goods may regulate consumption patterns, balancing economic benefits with social moderation. Smith ultimately sees the competent management of luxury consumption as essential for maintaining social stability and enhancing overall prosperity.

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_10

It is fundamentally important for an economy to have sufficient capital because only such start-up capital makes it possible, for example, to invest in tools and machinery which in turn creates employment. From this then develops "the real prosperity and the real income of all inhabitants." The decisive factor is the increase in capital that results from saving, i.e. from foregoing consumption in favour of a productive use of financial means. Smith therefore praises saving and impressively demonstrates in *The Wealth of Nations* how beneficial this moderating impulse is for both individual human beings and society as a whole.

> Capitals are increased by parsimony, and diminished by prodigality and misconduct.
>
> Whatever a person saves from his revenue he adds to his capital, and either employs it himself in maintaining an additional number of productive hands, or enables some other person to do so, by lending it to him for an interest, that is, for a share of the profits. As the capital of an individual can be increased only by what he saves from his annual revenue or his annual gains, so the capital of a society, which is the same with that of all the individuals who compose it, can be increased only in the same manner. (II.iii, 14–15)

This shows that "prodigality and misconduct" are just as much an obstacle to the increase of capital as letting it lie idle. Smith never tires of extolling the individual and social benefits of thrift, but he strategically foregrounds the economic effects.

With this he is able to build on observations of his immediate environment and it is clear from his remarks that he is in favour of saving and that for him it is a basic requirement that ultimately guarantees prosperity. For it is not only the business enterprise and entrepreneurial dynamism of craftsmen and merchants, but specifically the moderation of each person that finds his approval.

Moreover, the willingness to renounce careless spending which is expressed in the desire to increase one's savings also reflects Smith's rootedness in Puritan thinking. A positive assessment of moderation and deliberate limitation shapes the image of humanity in Smith's view and thus positions the postponement of monetary enjoyment in a favourable light. Smith contrasts "the passion for present enjoyment" with the calm and dispassionate, deliberate process of increasing the amount of money put by in savings. In both cases the aim is the satisfaction of needs which Smith does not criticise in principle. It is clear, however, that self-control not only curbs rash passion and prevents immediate enjoyment, but that rationally directed moderation leads to an objective improvement in the circumstances of life. Smith therefore sees the positive re-evaluation of the desire for pleasure as an effective means of achieving moderation and thus self-control. Putting money by in savings is seen as a natural human impulse which helps to improve the circumstances of life.

> With regard to profusion, the principle which prompts to expense is the passion for present enjoyment; which, though sometimes violent and very difficult to be restrained, is in general only momentary and occasional. But the principle which prompts to save is the desire of bettering our condition, a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go into the grave. In the whole interval which separates those two moments, there is scarce perhaps a single instant in which any man is so perfectly and completely satisfied with his situation as to be without any wish of alteration or improvement of any kind. An augmentation of fortune is the means by which the greater part of men propose and wish to better their condition. It is the means the most vulgar and the most obvious; and the most likely way of augmenting their fortune is to save

> and accumulate some part of what they acquire, either regularly and annually, or upon some extraordinary occasions. Though the principle of expense, therefore, prevails in almost all men upon some occasions, and in some men upon almost all occasions, yet in the greater part of men, taking the whole course of their life at an average, the principle of frugality seems not only to predominate, but to predominate very greatly. (II.iii, 28)

Anybody who indulges their weakness through wasteful behaviour is not only responsible for their individual fate, but such behaviour also has negative effects on society as a whole. When fellow human beings are affected, which is true for all economic transactions, Smith shows that the prodigal and idler almost directly harm their fellow human beings as well. The prodigal, according to Smith, abuses capital "by not measuring his expenditure according to his income, and so attacks his capital." In this case, too, an example illustrates the effects of such behaviour:

> Like him who perverts the revenues of some pious foundation to profane purposes, he pays the wages of idleness with those funds which the frugality of his forefathers had, as it were, consecrated to the maintenance of industry. By diminishing the funds destined for the employment of productive labour, he necessarily diminishes, so far as it depends upon him, the quantity of that labour which adds a value to the subject upon which it is bestowed, and, consequently, the value of the annual produce of the land and labour of the whole country, the real wealth and revenue of its inhabitants. If the prodigality of some was not compensated by the frugality of others, the conduct of every prodigal, by feeding the idle with the bread of the industrious, tends not only to beggar himself, but to impoverish his country. (II.iii, 20)

This statement illustrates that the increase of capital is advantageous for both the investor and other fellow human beings, but that the general public will have to compensate for the wasteful behaviour of individuals. And this passage is a perfect example of Smith's subtle rhetoric in favour of his main point. Why else would he choose the misuse of "income from the fortune of a pious benefactor for profane purposes?" The "wages of idleness" thus appear doubly reprehensible because not only is society harmed, but the reduction of capital becomes a morally charged "waste" as the noble intention of a "pious benefactor" is selfishly undermined.

In such passages, Smith's intention to combine a moral evaluation with a social and economic analysis becomes clear. As Smith shows it is crucial that the less prudent behaviour of individuals be compensated for by society as a whole. It is therefore important to see that the financial losses of a government which does not act according to the principle of frugality will have to be compensated for by the general public.

> This frugality and good conduct, however, is upon most occasions, it appears from experience, sufficient to compensate, not only the private prodigality and misconduct of individuals, but the public extravagance of government. (II.iii, 3)

Smith's critical attitude towards a government composed of selfish individuals and economic laymen is of particular importance in his discussion of the wealth of a nation. After all, it is the thrift and economic competence of the people that sustains the state, even if politicians prove incompetent.

> In the midst of all the exactions of government, this capital has been silently and gradually accumulated by the private frugality and good conduct of individuals, by their universal,

> continual, and uninterrupted effort to better their own condition. It is this effort, protected by law and allowed by liberty to exert itself in the manner that is most advantageous, which has maintained the progress of England towards opulence and improvement in almost all former times, and which, it is to be hoped, will do so in all future times. England, however, as it has never been blessed with a very parsimonious government, so parsimony has at no time been the characteristical virtue of its inhabitants. It is the highest impertinence and presumption, therefore, in kings and ministers, to pretend to watch over the economy of private people, and to restrain their expense, either by sumptuary laws, or by prohibiting the importation of foreign luxuries. They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will. (II.iii, 36)

Even if Smith is sceptical about the moral integrity and professional competence of politicians, he sees the existing political framework as an indispensable prerequisite for the preservation of prosperity. In Britain, the pursuit of better living conditions is guaranteed by relative economic freedom and Smith states that the fundamental freedom of every person is protected by law. Only a free and well-governed society allows people to pursue their "universal, continual, and uninterrupted effort to better their own condition."

While the majority of workers derive income exclusively from their labour and have to spend this income more or less on their daily subsistence, owners of capital use it to generate income. According to Smith, the decisive factor is that a country's wealth is used either for immediate consumption or for a future return.

> In all countries where there is tolerable security, every man of common understanding will endeavour to employ whatever stock he can command in procuring either present enjoyment or future profit. If it is employed in procuring present enjoyment, it is a stock reserved for immediate consumption. If it is employed in procuring future profit, it must procure this profit either staying with him, or by going from him. In the one case it is fixed, in the other it is a circulating capital. A man must be perfectly crazy who, where there is tolerable security, does not employ all the stock which he commands, whether be his own or borrowed of other people, in some one or other of those three ways. (II.i, 30)

Smith divides the wealth of a person into three parts. The first part is used for immediate consumption, the second part is used as capital to generate income, and the third part consists of items such as clothes or furniture that were acquired earlier but have not yet been consumed. The capital itself can be divided into current assets, which serve to hire labour or purchase raw materials, and fixed assets in the form of machinery and buildings.

> There are two different ways in which a capital may be employed so as to yield a revenue or profit to its employer.
>
> First, it may be employed in raising, manufacturing, or purchasing goods, and selling them again with a profit. The capital employed in this manner yields no revenue or profit to its employer, while it either remains in his possession, or continues in the same shape. The goods of the merchant yield him no revenue or profit till he sells them for money, and the money yields him as little till it is again exchanged for goods. His capital is continually going from him in one shape, and returning to him in another, and it is only by means of such circulation, or successive exchanges, that it can yield him any profit. Such capitals, therefore, may very properly be called circulating capitals.

> Secondly, it may be employed in the improvement of land, in the purchase of useful machines and instruments of trade, or in suchlike things as yield a revenue or profit without changing masters, or circulating any further. Such capitals, therefore, may very properly be called fixed capitals. (II.i, 3–5)

The ratio between fixed and current assets can vary depending on occupational group; it depends directly on the capital intensity of production. A merchant, for example, predominantly commands current assets since no machines or other equipment are necessary for his professional activity. A craftsman or a factory owner, on the other hand, usually has larger fixed assets, depending on the type of profession.

> Some part of the capital of every master artificer or manufacturer must be fixed in the instruments of his trade. This part, however, is very small in some, and very great in others. A master tailor requires no other instruments of trade but a parcel of needles. Those of the master shoemaker are a little, though but a very little, more expensive. Those of the weaver rise a good deal above those of the shoemaker. The far greater part of the capital of all such master artificers, however, is circulated, either in the wages of their workmen, or in the price of their materials, and repaid with a profit by the price of the work.
>
> In other works a much greater fixed capital is required. In a great iron-work, for example, the furnace for melting the ore, the forge, the slitt-mill, are instruments of trade which cannot be erected without a very great expense. In coal-works and mines of every kind, the machinery necessary both for drawing out the water and for other purposes is frequently still more expensive. (II.i, 8–9)

In agriculture it is obvious that the tools are to be counted as fixed assets. It is more difficult with the farmer's livestock. Draft cattle count as fixed assets, as do sheep for wool production, for example, while animals for rearing belong to current assets.

Once Smith has clarified these terminological and conceptual differences in the asset structure of individual professions he moves from the microeconomic perspective to a macroeconomic view. Here, again, he extrapolates from small details to examples in larger contexts. This allows him to emerge as a successful interdisciplinary mediator of theoretical thought. The procedure is shown in the five successive quotations below. They illustrate the mechanisms that increase the wealth of the individual and that of society as a whole.

> The general stock of any country or society is the same with that of all its inhabitants or members, and therefore naturally divides itself into the same three portions, each of which has a distinct function or office.
>
> The first is that portion which is reserved for immediate consumption, and of which the characteristic is, that it affords no revenue or profit. It consists in the stock of food, clothes, household furniture, etc., which have been purchased by their proper consumers, but which are not yet entirely consumed. The whole stock of mere dwelling-houses too, subsisting at any one time in the country, make a part of this first portion. […]
>
> The second of the three portions into which the general stock of the society divides itself, is the fixed capital, of which the characteristic is, that it affords a revenue or profit without circulating or changing masters. It consists chiefly of the four following articles:
>
> First, of all useful machines and instruments of trade which facilitate and abridge labour:
>
> Secondly, of all those profitable buildings which are the means of procuring a revenue, not only to their proprietor who lets them for a rent, but to the person who possesses them and pays that rent for them […].

> Thirdly, of the improvements of land, of what has been profitably laid out in clearing, draining, enclosing, manuring, and reducing it into the condition most proper for tillage and culture. […].
>
> Fourthly, of the acquired and useful abilities of all the inhabitants or members of the society. The acquisition of such talents, by the maintenance of the acquirer during his education, study, or apprenticeship, always costs a real expense, which is a capital fixed and realized, as it were, in his person. Those talents, as they make a part of his fortune, so do they likewise of that of the society to which he belongs. The improved dexterity of a workman may be considered in the same light as a machine or instrument of trade which facilitates and abridges labour, and which, though it costs a certain expense, repays that expense with a profit.
>
> The third and last of the three portions into which the general stock of the society naturally divides itself, is the circulating capital; of which the characteristic is, that it affords a revenue only by circulating or changing masters. (II.i, 11–18)

The function of this circulating capital is the very core of Smith's circular flow model: only when it circulates and passes through different hands does circulating capital yield income. However, here the circulating capital of a country differs from that of a single person. Individual circulating capital does not count towards personal net income since, for example, a merchant's stock does not in itself yield profit. Only by selling it to others who need these goods does it generate income for the merchant. The sum of the individual incomes of all participants in the economic process corresponds to the national income:

> The gross revenue of all the inhabitants of a great country comprehends the whole annual produce of their land and labour; the net revenue, what remains free to them after deducting the expense of maintaining- first, their fixed, and, secondly, their circulating capital; or what, without encroaching upon their capital, they can place in their stock reserved for immediate consumption, or spend upon their subsistence, conveniencies, and amusements. Their real wealth, too, is in proportion, not to their gross, but to their net revenue. (II.ii, 5)

The increased income in turn increases savings so that the national product continues to grow. Smith shows that the national product has increased even if progress has sometimes been slow and is not immediately apparent.

> When we compare, therefore, the state of a nation at two different periods, and find, that the annual produce of its land and labour is evidently greater at the latter than at the former, that its lands are better cultivated, its manufactures more numerous and more flourishing, and its trade more extensive, we may be assured that its capital must have increased during the interval between those two periods, and that more must have been added to it by the good conduct of some than had been taken from it either by the private misconduct of others or by the public extravagance of government. (II.ii, 32)

According to Smith, productive labour is decisive for increasing the social product. He distinguishes between productive and unproductive labour because productive labour increases the wealth of a country, while unproductive labour merely consumes wealth. While the physiocrats considered only agricultural labour to be productive, for Smith commercial activity is also part of productive labour. The distinction between productive and unproductive labour is not a moral or social value judgement and even Smith recognises that the dividing line is difficult to draw. Productive labour is visible in the form of durable material goods, for instance.

> The labour of the menial servant, on the contrary, does not fix or realize itself in any particular subject or vendible commodity. His services generally perish in the very instant of their performance, and seldom leave any trace or value behind them for which an equal quantity of service could afterwards be procured. (II.iii,1)

For Smith it is crucial that productive labour creates new, permanent value. Thus, the labour of a craftsman is incorporated into the final product so that the craftsman's wage is repaid by the sale of the manufactured good. His wage is thus reproduced and at the same time the social product increases. In contrast, servants receive their wages from the income of the entrepreneur, the landowner or even a worker; it is thus a derived income.

> The labour of some of the most respectable orders in the society is, like that of menial servants, unproductive of any value, and does not fix or realize itself in any permanent subject; or vendible commodity, which endures after that labour is past, and for which an equal quantity of labour could afterwards be procured. The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers. They are the servants of the public, and are maintained by a part of the annual produce of the industry of other people. Their service, how honourable, how useful, or how necessary soever, produces nothing for which an equal quantity of service can afterwards be procured. The protection, security, and defence of the commonwealth, the effect of their labour this year will not purchase its protection, security, and defence for the year to come. In the same class must be ranked, some both of the gravest and most important, and some of the most frivolous professions: churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers, opera-dancers, etc. The labour of the meanest of these has a certain value, regulated by the very same principles which regulate that of every other sort of labour; and that of the noblest and most useful, produces nothing which could afterwards purchase or procure an equal quantity of labour. Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production. (II.iii, 2)

The assumption that the work of doctors, teachers and civil servants is useful but unproductive leads Smith to a somewhat surprising assessment of state activity. These occupational groups also generate income which they can save and thus increase the build-up of capital. But according to Smith only the increase in productive labour leads to an increase in the social product. This distinction between productive and unproductive activities is based on the division into praiseworthy and trivial goods made by Aristotle.

Smith maintains that the social product decreases when the share of unproductive labour increases. Therefore, a surplus must be generated from productive labour in order to be able to finance unproductive occupations. This applies in particular to state activities, which must therefore direct their activities towards the interests of the public, which pays the civil servants.

> Both productive and unproductive labourers, and those who do not labour at all, are all equally maintained by the annual produce of the land and labour of the country. This produce, how great soever, can never be infinite, but must have certain limits. According, therefore, as a smaller or greater proportion of it is in any one year employed in maintaining unproductive hands, the more in the one case and the less in the other will remain for the productive, and the next year's produce will be greater or smaller accordingly; the whole

> annual produce, if we except the spontaneous productions of the earth, being the effect of productive labour. (II.iii, 3)

Similar to all other individuals pursuing their self-interest, owners of capital also want to primarily increase their personal wealth.

> The consideration of his own private profit is the sole motive which determines the owner of any capital to employ it either in agriculture, in manufactures, or in some particular branch of the wholesale or retail trade. The different quantities of productive labour which it may put into motion, and the different values which it may add to the annual, produce of the land and labour of the society, according as it is employed in one or other of those different ways, never enter into his thoughts. (II.v, 36)

The "sole motive" for the owner of capital is the expectation of a profit. For the investor personally it is irrelevant whether this also increases the welfare of other people. Smith shows, however, that this is precisely the effect that occurs because investments allow, for example, more workers to be hired. But Smith advises that if capital is limited it should first be invested in agriculture, then in industry and finally in trade. This order is determined by the level of employment of productive forces.

> When the capital of any country is not sufficient for all those three purposes, in proportion as a greater share of it is employed in agriculture, the greater will be the quantity of productive labour which it puts into motion within the country; as will likewise be the value which its employment adds to the annual produce of the land and labour of the society. After agriculture, the capital employed in manufactures puts into motion the greatest quantity of productive labour, and adds the greatest value to the annual produce. That which is employed in the trade of exportation has the least effect of any of the three. (II.v, 19)

For trade, Smith distinguishes between domestic trade and foreign trade for consumer goods, freight trade or transport trade. In general, trade can only be expected to have a minor impact on employment. Smith states that capital invested in a country's domestic trade rather than in its foreign trade will generally stimulate and support employment. Because returns in foreign trade usually take longer to reach the investor capital is tied up abroad for a long time and is thus not available for investment at home. "If the capitals are equal," Smith says, "the one will give four-and-twenty times more encouragement and support to the industry of the country than the other." Only in rich nations that have more capital than they need for their own economy can capital be invested in foreign trade.

> When the capital stock of any country is increased to such a degree that it cannot be all employed in supplying the consumption and supporting the productive labour of that particular country, the surplus part of it naturally disgorges itself into the carrying trade, and is employed in performing the same offices to other countries. The carrying trade is the natural effect and symptom of great national wealth; but it does not seem to be the natural cause of it. Those statesmen who have been disposed to favour it with particular encouragements seem to have mistaken the effect and symptom for the cause. (II.v, 34)

Smith rejects a one-sided promotion of certain types of trade because the inflow of capital should not be artificially increased or prevented. Those who employ their own capital must have the freedom to decide according to their own evaluation of possible profit opportunities. This corresponds to the principle of economic freedom, which Smith repeatedly emphasises in other places. He therefore criticises the

governments in Europe which, through their subsidy policies, have had the effect that.

> private persons frequently find it more to their advantage to employ their capitals in the most distant carrying trades of Asia and America than in the improvement and cultivation of the most fertile fields in their own neighbourhood. (II.v, 36)

This hierarchical order of investment of capital in agriculture, commerce and finally foreign trade is for Smith the "natural course of things" and should not be interrupted by state intervention. Moreover, he thinks that the security of capital investment is higher in agriculture than in commerce, and foreign trade is the riskiest.

> In seeking for employment to a capital, manufactures are, upon equal or nearly equal profits, naturally preferred to foreign commerce, for the same reason that agriculture is naturally preferred to manufactures. As the capital of the landlord or farmer is more secure than that of the manufacturer, so the capital of the manufacturer, being at all times more within his view and command, is more secure than that of the foreign merchant. (III.i, 7)

For Smith, the order of investment is naturally given and historical observation of other countries confirms this observation.

> According to the natural course of things, therefore, the greater part of the capital of every growing society is, first, directed to agriculture, afterwards to manufactures, and last of all to foreign commerce. This order of things is so very natural that in every society that had any territory it has always, I believe, been in some degree observed. Some of their lands must have been cultivated before any considerable towns could be established, and some sort of coarse industry of the manufacturing kind must have been carried on in those towns, before they could well think of employing themselves in foreign commerce. (III.i, 8)

By considering the historical development of investment Smith concedes that the course of events did not always take place in this way. Although "this natural development should have taken place to a certain extent, it has in many respects been completely reversed in all the modern states of Europe." He attributes this reversal to the fact that state intervention might have misdirected capital investment. Foreign trade, for example, led to the establishment of shops in cities that produced goods for foreign trade. This increased the general wealth of the local population and fostered an increase in domestic production. As a result, a growing local population with funds at their disposal generated incentives for farmers to increase production, which eventually led to progress in agriculture. This, as Smith concedes, in places inverted the "natural course of things" described above.

> But though this natural order of things must have taken place in some degree in every such society, it has, in all the modern states of Europe, been, in many respects, entirely inverted. The foreign commerce of some of their cities has introduced all their finer manufactures, or such as were fit for distant sale; and manufactures and foreign commerce together have given birth to the principal improvements of agriculture. The manners and customs which the nature of their original government introduced, and which remained after that government was greatly altered, necessarily forced them into this unnatural and retrograde order. (III.i, 9)

Smith is convinced that if the natural order had been followed prosperity in many European nations would be even higher. The decisive factor for the increase in

prosperity is, on the one hand, frugality and on the other hand that capital can be invested without state control in such a way that it increases individual wealth and thus ultimately serves the common good. It is therefore not surprising that Smith sees this as "the source of real prosperity."

Smith was, as his friends have confirmed, a modest man. Luxury in its pompous and superfluous form, vanity and extravagance were alien to him. He lived modestly and in relative seclusion under the care of his mother and his cousin. Smith was comparatively well off and had no costly passions that we know of today but to the surprise of the executors of his estate he left no savings or assets. His biography also does not fully explain why Smith devotes so much attention to the phenomenon of luxury in *The Wealth of Nations*. It seems that he participates in an ongoing debate of the seventeenth and eighteenth century that interested not only moral philosophers, but men of letters, politicians and especially clergymen. With his detailed discussion of luxury Smith presents the impact of various social mechanisms and, at the same time as evaluating this phenomenon economically and socially, attempts to explain human motives for interacting in society.

With his discussion of luxury Smith returns to Bernard Mandeville who in the "Fable of the Bees"had developed a very broad definition of what falls under the concept of luxury. Mandeville made the claim that all things which are not absolutely necessary for life are luxuries. In this extreme form, however, the concept of luxury becomes hardly tenable and loses some of its descriptive function. Mandeville's caricature of his contemporaries in the early eighteenth century worked well because he portrayed all of them as fundamentally weak, immoral and depraved. He presented the material needs of daily life as luxurious waste and saw debauchery and excess as the driving forces in society. With this view truly virtuous behaviour was seen as impossible in a wealthy society that supposedly derived its prosperity from unnecessary consumption.

Private vices result in public benefits was the main idea behind the provocative thesis of the "Fable of the Bees," and as expected Mandeville's readers were outraged. Most responses were indignant attacks on Mandeville personally and showed that his readers did not see the poem as a satire but misunderstood it as a serious philosophical treatise. Smith's response is much more levelled and in *The Wealth of Nations* he carefully analyses the question of the nature of luxury. He examines the extent to which, on the one hand, self-sacrifice and, on the other, the transgression of a universally accepted norm can be considered criteria for a definition. In addition, he depicts the various effects that luxury has on public life. As usual, Smith is extremely thorough and very careful: first he observes, then he derives his conclusions from his observations and additional empirical evidence. In *The Wealth of Nations* Smith departs considerably from Mandeville's polemical account of the nature of the wealth of a nation.

Smith discusses luxury in all five books of *The Wealth of Nations*, each with a different approach and focus. Luxury is a central economic problem affecting all areas of life from simple every-day needs to concepts of social class, the role of vanity and the craving for individual recognition. Luxury also plays a major role in market incentives and the growth of employment. It highlights the social impact of

a phenomenon that is commonly seen as a vice and a corruption of human nature, directly associated with personal weakness and moral inadequacy. Is luxury thus the outward symptom of a weakness of character and is the consumption of luxury goods a condition or a consequence of the prosperity of a nation? Can society still function if it is exclusively composed of virtuous, self-renouncing and truly selfless individuals who are supposed to live together with egoists addicted to luxury? Does not the government have to intervene authoritatively when people become weak, unreliable and ultimately antisocial while increasing prosperity destabilises moral norms? In addressing these questions, Smith highlights an economic, moral and social problem.

He begins with an account of the natural needs every human being has to sustain life and ends with seemingly limitless desires:

> The desire of food is limited in every man by the narrow capacity of the human stomach; but the desire of the conveniences and ornaments of building, dress, equipage, and household furniture, seems to have no limit or certain boundary. Those, therefore, who have the command of more food than they themselves can consume, are always willing to exchange the surplus, or, what is the same thing, the price of it, for gratifications of this other kind. What is over and above satisfying the limited desire is given for the amusement of those desires which cannot be satisfied, but seem to be altogether endless. (I.xi.c, 7)

Nature, according to Smith, allows consumption only to a naturally regulated extent by limiting the capacity of humans to consume food, for instance. Beyond this surplus food that is not needed to serve the pure maintenance of life may be converted into something else that is gratifying. This observation implies that it is a human impulse to exchange non-vital goods for "gratifications of this other kind." Increasing personal comfort and beautifying one's surroundings are thus endeavours that are shared by all human beings. Beauty and practicality are not mutually exclusive, and the idea of utility is extended to such objects for whose design or choice of material there are different alternatives. In the following passage Smith pays special attention to the hygienic qualities of precious metals in objects of daily use.

> As they are less liable to rust and impurity, they can more easily be kept clean, and the utensils either of the table or the kitchen are often upon that account more agreeable when made of them. A silver boiler is more cleanly than a lead, copper, or tin one; and the same quality would render a gold boiler still better than a silver one. Their principal merit, however, arises from their beauty, which renders them peculiarly fit for the ornaments of dress and furniture. No paint or dye can give so splendid a colour as gilding. The merit of their beauty is greatly enhanced by their scarcity. With the greater part of rich people, the chief enjoyment of riches consists in the parade of riches, which in their eye is never so complete as when they appear to possess those decisive marks of opulence which nobody can possess but themselves. (I.xi.c, 3)

Precious metals serve the dual purpose of being beautiful and practical at the same time. They satisfy the vanity of the rich, who can thus combine aesthetics with social prestige. In the context of the discussion of what constitutes luxury Smith analyses how the boundaries between luxury and expendability are defined.

He presents a precisely differentiated assessment of this question while also taking into account social standards and universally accepted customs. He expands the

concepts of luxury and necessities to include a social criterion that extends the idea of pure self-preservation of the individual to include typical and generally accepted standards of daily life. For Smith, it is not only important that survival is ensured, but he also sees that people are constantly in contact with other people in society and that this contact provides means of comparison. The minimum standard of living must therefore be part of the necessities of life, which is defined according to the general level of development of society.

> Under necessaries, therefore, I comprehend not only those things which nature, but those things which the established rules of decency have rendered necessary to the lowest rank of people. All other things I call luxuries, without meaning by this appellation to throw the smallest degree of reproach upon the temperate use of them. (V.ii.k, 3)

This is a decisive statement on consumer behaviour, for Smith explains that beyond the mere maintenance of life such goods are also vital as are "simply required by customary rules of propriety." The standard of living of the poor is thus defined as a subsistence level, the maintenance of which, such as clothing, household goods and shelter cannot be regarded as a luxury. With this definition Smith introduces a historical, social and cultural element to his definition which also takes into account economic developments. This thought implies that certain aspects and elements of life that are acceptable today may no longer be considered the bare minimum tomorrow. A statement like this reflects Smith's teleological view of humanity and his unwavering optimism about progress which sees the present state of society as excellent and any development beyond it, if at all, exclusively as further improvement. But if such a social component is included in his definition it must always have as its basis the present form of society. And since society is constantly changing, a rigid definition of the necessities of life and thus by extension of luxury has no place in *The Wealth of Nations*.

All things that go beyond this biological and social minimum necessary for subsistence are what Smith calls luxuries, though far be it from him, as he says, "to use this term to make the slightest reproach against the moderate use and consumption of such commodities." Significant in Smith's argument is the moderation imposed on the individual, which results from the self-control of the responsible person. Values are not absolute but always relative and are oriented towards the market and the only constant in the discussion of luxury and modesty is self-preservation as the basis regulating all further desires and appetites.

> When we are in want of necessaries we must part with all superfluities, of which the value, as it rises in times of opulence and prosperity, so it sinks in times of poverty and distress. It is otherwise with necessaries. Their real price, the quantity of labour which they can purchase or command, rises in times of poverty and distress, and sinks in times of opulence and prosperity, which are always times of great abundance; for they could not otherwise be times of opulence and prosperity. Corn is a necessary, silver is only a superfluity. (I.xi.e, 38)

Luxury goods are subject to change: changing cultural values as well as changing conditions of the market. But unlike precious metals, food as basic sustenance is always central to self-preservation and not dependent on fashions or personal whims. However, since food, like all other goods, is subject to the fluctuations of the

market, supply and demand determine its price and thus dictate the consumption patterns of the population.

At the same time Smith sees that people in any community are subject to constant social control. Therefore, whatever one does that can be observed from the outside might have considerable social significance. Not only is it crucial how someone shows wealth and with which goods the desire for luxury is meaningfully satisfied, but Smith also points out a social and financial caveat. In society, he argues, the rich are always subject to special attention and scrutiny. It is this attention that many wealthy people desire anyway. At the same time, however, under certain circumstances even the slightest visible restriction of expenditure might mean a considerable loss of status. Smith argues elsewhere in *The Wealth of Nations* that some expenditures on luxuries are individually and socially more advantageous than others. He never tires of extolling the benefits of a frugal lifestyle, and he lists the unpopular consequences that publicly displayed affluence can have in times of need.

> The expense too, which is laid out in durable commodities, is favourable, not only to accumulation, but to frugality. If a person should at any time exceed in it, he can easily reform without exposing himself to the censure of the public. To reduce very much the number of his servants, to reform his table from great profusion to great frugality, to lay down his equipage after he has once set it up, are changes which cannot escape the observation of his neighbours, and which are supposed to imply some acknowledgment of preceding bad conduct. Few, therefore, of those who have once been so unfortunate as to launch out too far into this sort of expense, have afterwards the courage to reform, till ruin and bankruptcy oblige them. (II.iii, 40)

The "observation of his neighbours" and the associated social control, not to mention the constant pressure of society, real or imagined, bring about a moderation of the ostentatious display of wealth. The spending policy of people can be influenced in a socially beneficial direction by the three aspects listed by Smith. Saving money as renunciation and self-control, moderation with the aim of increasing wealth, and social security in times of need are important arguments for frugal budgeting. It leads, with special emphasis on reason-guided moderation, to a balanced, financially and socially secure position which, in Smith's view, makes the individual a successful citizen. Being frugal and modest simultaneously preserves the social peace necessary to maintain a prosperous and thriving society. In outlining the benefits of maintaining savings, Smith discusses yet another important aspect of a society composed of rational members whose self-control contributes to the functioning of the whole. His conclusion in *The Wealth of Nations* is based on the realisation that there are certain natural human impulses which it would be futile to suppress. But if they cannot be suppressed, Smith argues, then they must be channelled to become individually and socially beneficial. And the best way of doing so is through rational arguments and appeals to reason.

Taxes on luxury goods, for example, are to be considered in this context. Consumer behaviour can be influenced by politically opportune taxation which imposes higher taxes on those things in daily life that are currently defined as luxury goods. From a cultural-historical perspective it is interesting to note how Smith

views the taxation of tea, sugar and chocolate, i.e. all those consumer goods which, a generation before him, were the exclusive privilege of the rich. Smith states in an aside that "tea and sugar, which in England and Holland have become luxuries of the lowest ranks of people" as well as chocolate, which is said to be a luxury of the poorer people in Spain, have already found their way into the daily life of all social groups in the eighteenth century. But in order to forestall politicians who want to derive new plans for ever more extensive taxation from these observations, Smith adds:

> It must always be remembered, however, that it is the luxurious and not the necessary expense of the inferior ranks of people that ought ever to be taxed. (V.ii.k, 44)

In discussing the consumption patterns of the population, Smith goes further to consider the interactions of the market, arriving at a qualitative distinction of expenditure. His initial argument reflects the plausible and universally accepted insight that all spending on luxury items directly or indirectly benefits the economy as a whole. Producing luxury goods is usually labour-intensive and thus guarantees rising employment figures.

> For though the quantity of precious productions for which he exchanges his whole revenue be very small, the number of workmen employed in collecting and preparing it must necessarily have been very great. Its great price generally arises from the wages of their labour, and the profits of all their immediate employers. By paying that price he indirectly pays all those wages and profits and thus indirectly contributes to the maintenance of all the workmen and their employers. (III.iv, 1)

The economic effect, which is reflected in an increase in the number of paid workers and in rising profits for entrepreneurs and producers is a very direct consequence of increased consumption. For obviously not everything that exceeds the necessities of life is reprehensible. The moderate consumption of luxury goods receives Smith's approval and at this point he shows how economic interactions influence the welfare of society as a whole.

> A man of fortune, for example, may either spend his revenue in a profuse and sumptuous table, and in maintaining a great number of menial servants, and a multitude of dogs and horses; or contenting himself with a frugal table and few attendants, he may lay out the greater part of it in adorning his house or his country villa, in useful or ornamental buildings, in useful or ornamental furniture, in collecting books, statues, pictures; or in things more frivolous, jewels, baubles, ingenious trinkets of different kinds; or, what is most trifling of all, in amassing a great wardrobe of fine clothes, like the favourite and minister of a great prince who died a few years ago. (II.iii, 38)

Expenditure on hospitality is accepted by Smith, the acquisition of *objets d'art* and books at the expense of a lavish table is preferred and only bric-a-brac and "a great wardrobe of fine clothes" receive significant criticism. Smith sees different social implications in this distinction of expenditure on luxury:

> Were two men of equal fortune to spend their revenue, the one chiefly in the one way, the other in the other, the magnificence of the person whose expense had been chiefly in durable commodities, would be continually increasing, every day's expense contributing something to support and heighten the effect of that of the following day: that of the other, on the contrary, would be no greater at the end of the period than at the beginning. The former, too,

> would, at the end of the period, be the richer man of the two. He would have a stock of goods of some kind or other, which, though it might not be worth all that it cost, would always be worth something. No trace or vestige of the expense of the latter would remain, and the effects of ten or twenty years profusion would be as completely annihilated as if they had never existed. (II.iii, 38)

Increasing value and gaining prestige are the results of thoughtful spending on art, culture and durable goods, whereas "twenty years of waste" leaves the prodigal with nothing but the remembrance of things past. In both cases it is expenditure that is commonly declared a luxury, for it is unnecessary for immediate survival or to secure social acceptance in a given group. Building on his argument that human beings tend to spend on luxuries in the broadest sense whenever they have more than they need to survive Smith accepts this default as a natural human impulse and examines what form of luxury leads to individual, social and economically meaningful interactions that increase the prosperity of a nation.

> As the one mode of expense is more favourable than the other to the opulence of an individual, so is it likewise to that of a nation. The houses, the furniture, the clothing of the rich, in a little time, become useful to the inferior and middling ranks of people. They are able to purchase them when their superiors grow weary of them, and the general accommodation of the whole people is thus gradually improved, when this mode of expense becomes universal among men of fortune. In countries which have long been rich, you will frequently find the inferior ranks of people in possession both of houses and furniture perfectly good and entire, but of which neither the one could have been built, nor the other have been made for their use. (II.iii, 39)

The discarded wealth of the affluent, no longer considered a luxury by themselves leads to a gradual increase in the general standard of living in economically prosperous communities. The more the amenities of life are opened up to other social groups and former luxuries are used in circles for which they were until then unaffordable the more the individual benefits, irrespective of social standing, together with society as a whole. With this argument Smith introduces an important socio-economic explanation into the debate of luxury, because in the long run all social classes gain directly and indirectly from the pursuit of and desire for luxury.

Questions

How does Adam Smith define the role of capital in economic prosperity?

What are the key differences between productive and unproductive labour according to Adam Smith?

Why does Adam Smith emphasise saving over consumption in contributing to economic growth?

How does Adam Smith's view of thrift align with Puritan values?

What are the consequences of prodigal and idle capital in Adam Smith's analysis?

How does Adam Smith critique government intervention in capital flows and investment?

In what way does Adam Smith's hierarchy of capital investment prioritize agriculture, industry, and trade?

How does Adam Smith reconcile the moral and economic aspects of luxury in "*The Wealth of Nations*"?

What role do norms and social control play in Adam Smith's understanding of luxury consumption?

How does Adam Smith propose to channel natural human impulses towards beneficial economic actions?

Concepts of Economic Liberalism

Abstract "*The Wealth of Nations*" highlights the importance of liberal principles and the rights of all members of society to pursue their own interests, while the government plays a limited role. Smith especially criticises mercantilism, an economic policy that seeks to increase national wealth through close state control of trade, for encouraging monopolistic behaviour, most notably among merchants and entrepreneurs who seek high tariffs and export premiums to secure a domestic market advantage. He opposes export subsidies because they misallocate resources and harm consumers, who end up paying higher prices. Smith argues that trade restrictions, such as blanket import bans, hinder the natural benefits of trade by disrupting the division of labour. He believes that nations should specialize in the production of goods they produce most efficiently, and trade with others to mutual advantage.

Mercantilism is criticised by Smith for its state intervention and protectionist policies, which he states hinder economic growth. He supports a liberal economic order and believes that the pursuit of profit can lead to mutual benefits for all, emphasizing the importance of free trade and the negative impact of monopolies and trade restrictions.

In this Smith agrees with the physiocrats, particularly their criticism of mercantilism and their focus on personal freedom, but he disagrees with their exclusive focus on agriculture as the primary driver of national wealth. Smith recognizes the importance of other sectors, such as craftsmanship, entrepreneurship, and trade, which the physiocrats neglect. His own economic theory, though similar in some respects, is more balanced and inclusive, highlighting the need for a broader view of production beyond agriculture.

His analysis of colonial trade, particularly Britain's monopoly over its American colonies, highlights how such policies ultimately harm both the colonies and the colonizers. Smith is also remarkably prescient about the future of America, predicting its rise as an economic power and the eventual political independence of the colonies. He believes that minimal government interference, coupled with a thriving, self-sufficient population, will allow America to flourish. Smith also criticises British politicians who fail to see the colonies'potential and who instead view them as mere economic assets. "*The Wealth of Nations*" advocates for economic freedom,

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_11

minimal state control, and a system where individual actions driven by self-interest lead to collective prosperity.

One of the main ideas of *The Wealth of Nations* is the detailed account of how individual interest and the welfare of the commonwealth are to be brought together. Smith is convinced that a person's will for self-preservation overrides all other impulses. At the same time, everybody is naturally prepared for life in society because human beings have the capacity for communication and exchange. Consequently, the task of government is to strike a balance, if possible, between the desires of the individual and the legitimate interests of the community.

To this end Smith sees the ideal of a liberal principle of order based on balance and, first and foremost, non-interference. A liberal political leadership must therefore be primarily interested to providing ideal conditions for all people so they can pursue their respective interests. But individuals must be prevented from deliberately behaving in a harmful way and they must be stopped from enriching themselves at the expense of the general public.

Smith's call for justice, freedom and equality can thus also be understood in economic terms, because he sees these three principles as the prerequisite for maintaining the prosperity of a nation. This applies to all social classes, workers, entrepreneurs and landowners.

> The establishment of perfect justice, of perfect liberty, and of perfect equality is the very simple secret which most effectually secures the highest degree of prosperity to all the three classes. (IV.ix, 17)

In this statement, Smith's fundamentally liberal attitude is based on the understanding of a tolerant and enlightened view of humanity. The basic principle of his philosophy shows in his assessment of society. Human nature and the society as a whole are linked by mechanisms that include, among other things, the pursuit of profit as a motor, which Smith would like to see promoted by tolerance, both social and political. What seems particularly remarkable is how the moral philosopher Smith creates the basis of modern economics and combines it with political considerations. In doing so he deliberately engages in what is commonly called political economy and analyses the nature and causes of the prosperity of a country.

In addition, *The Wealth of Nations* addresses the role of government in a very particular way. On the one hand, Smith criticises the excesses of mercantilism and political incompetence which are based on biased advisors, mainly entrepreneurs. On the other hand, he sees the principles of liberal government under threat, especially in a society under pressure from the contradiction between ideal and reality in eighteenth-century society. He sees the basic demand expressed throughout his book for the most tolerant, imperceptible leadership possible endangered to the extent that political despotism mixes with authoritarian claims to power. Instead of stimulating the productive and socially beneficial qualities of everyone in his view individual advancement is impaired.

> For though management and persuasion are always the easiest and the safest instruments of governments, as force and violence are the worst and the most dangerous, yet such, it seems, is the natural insolence of man that he almost always disdains to use the good instrument, except when he cannot or dare not use the bad one. (V.i.g, 19)

Smith analyses how economic policy influences the growth of nations. It tries to improve the living conditions for each individual and to shape society in such a way that a prosperous community might benefit from each person regardless of rank or qualification.

> Political economy, considered as a branch of a science of a statesman or legislator, proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign. (IV, 1)

In the eighteenth century colonies play a leading role in the discussion of increasing prosperity, and Smith devotes special attention to the importance of the British colony of North America. In this context, he examines the prevailing economic systems of mercantilism and the physiocrats. He then derives his own economic policy principles on the basis of his previous analysis and empirical-historical material.

The Wealth of Nations was published in 1776, the same year that the English colony of America declared its independence. All further editions of his work, edited by Smith himself during his lifetime, take this historical parallel into account which can be traced in a number of revised passages. Smith's analysis of the future development of America is characterised by almost prophetic insight.

He begins his discussion against the perceived background of a huge, empty space—the colonies represent an ideal extended market for British trade. The discovery of America thus brought an important economic improvement to all of Europe:

> By opening a new and inexhaustible market to all the commodities of Europe, it gave occasion to new divisions of labour and improvements of art, which in the narrow circle of the ancient commerce, could never have taken place for want of a market to take off the greater part of their produce. The productive powers of labour were improved, and its produce increased in all the different countries of Europe, and together with it the real revenue and wealth of the inhabitants. (IV.i, 32)

However, Smith shows in meticulous detail that this is not trade between nations of equal standing and with equal rights and he develops the apparent and actual advantages and disadvantages of colonial trade both for the colonizing nation and for the colonies. By no means does this type of trade, which is heavily regulated and unilaterally supportive of England, have positive long-term consequences.

> Of the greater part of the regulations concerning the colony trade, the merchants who carry it on, it must be observed, have been the principal advisers. We must not wonder, therefore, if, in the greater part of them, their interest has been more considered than either that of the colonies or that of the mother country. (IV.vii.b, 49)

Countries that are culturally and ideologically closely intertwined, even if they are on different developmental stages as far as trade and industrial progress are

concerned, profit from liberal policies. According to Smith's observations commercial freedom is beneficial for all parties in the long run. Harmful, on the other hand, and this becomes clear from a multitude of examples in *The Wealth of Nations*, appears to be the role of the colonial trade monopoly which according to Smith was introduced and maintained exclusively in the interest of a small group of entrepreneurs and merchants. This one-sided and unjust trade relationship finds support only among small-minded politicians.

> To found a great empire for the sole purpose of raising up a people of customers may at first sight appear a project fit only for a nation of shopkeepers. It is, however, a project altogether unfit for a nation of shopkeepers; but extremely fit for a nation whose government is influenced by shopkeepers. Such statesmen, and such statesmen only, are capable of fancying that they will find some advantage in employing the blood and treasure of their fellow-citizens to found and maintain such an empire. (IV.vii.c, 63)

The damning verdict that England was "a nation of shopkeepers" echoes down to the present day. However, it is based on Smith's analysis of eighteenth-century society which was permeated with commercial thinking in every detail and mostly sought personal gain. Remarkably, a liberal handling of the colonial market ultimately guaranteed more benefits for all parties concerned, as opposed to the effects of the British government's strongly interventionist policy. Smith's idea of society, based on the balance of power in natural freedom, also holds good when applied to the largest possible economic unit, world trade.

What makes Smith's analysis of the American colonies strikingly prophetic, however, is his realisation, borne of political intuition, that the increasing importance of a nation must also be reflected politically in the long term. It is certainly significant that Smith was a friend of Benjamin Franklin who belonged to the circle of intellectuals that were in lively intellectual exchange with Smith. His statements about the political climate in America may have familiarised Smith with the democratic efforts that had a significant impact on America in the second half of the eighteenth century. Nevertheless, it is astonishing that at the time of the American Declaration of Independence Smith apparently foresaw that America would become one of the leading economic nations. And it is for this reason that he sketches the scenario of political independence for America. Smith was aware of the utopian character of his vision of the future and discusses the theoretical possibilities and consequences, political as well as economic, that come with colonial independence.

> To propose that Great Britain should voluntarily give up all authority over her colonies, and leave them to elect their own magistrates, to enact their own laws, and to make peace and war as they might think proper, would be to propose such a measure as never was, and never will be adopted, by any nation in the world. No nation ever voluntarily gave up the dominion of any province, how troublesome soever it might be to govern it, and how small soever the revenue which it afforded might be in proportion to the expense which it occasioned. Such sacrifices, though they might frequently be agreeable to the interest, are always mortifying to the pride of every nation, and what is perhaps of still greater consequence, they are always contrary to the private interest of the governing part of it, who would thereby be deprived of the disposal of many places of trust and profit, of many opportunities of acquir-

> ing wealth and distinction, which the possession of the most turbulent, and, to the great body of the people, the most unprofitable province seldom fails to afford. (IV.vii.c, 66)

Smith has reservations about small-minded British politicians who are mainly interested in their own advantage and who do not see the beneficial potential of even "the most unprofitable province." But should any of the parties involved not live up to general expectations—the "golden dream"—then a clean cut is advisable.

> It is surely now time that our rulers should either realize this golden dream, in which they have been indulging themselves, perhaps, as well as the people, or that they should awake from it themselves, and endeavour to awaken the people. If the project cannot be completed, it ought to be given up. If any of the provinces of the British empire cannot be made to contribute towards the support of the whole empire, it is surely time that Great Britain should free herself from the expense of defending those provinces in time of war, and of supporting any part of their civil or military establishments in time of peace, and endeavour to accommodate her future views and designs to the real mediocrity of her circumstances. (V.iii, 91)

At a time when criminals, beggars, prostitutes, and the dispossessed poor were deported from England and shipped to the American colonies, Smith's positive image of the population of America in *The Wealth of Nations* is unusual. Many of his readers were familiar with Daniel Defoe's scandalous novel, *Moll Flanders*. In the book the free-spirited English petty criminal and adulteress Moll Flanders is given the alternative of the gallows or the colonies; she chooses life in the colonies, England's largest prison. And it is here, of all places, that Smith sees that the challenges and opportunities of an increasingly affluent society strongly influence and shape its inhabitants. America's administration functions well, competent politicians govern the nation and make the most of the unique opportunity to reorder a growing economy and a motivated society.

> From shopkeepers, tradesmen, and attornies, they are become statesmen and legislators, and are employed in contriving a new form of government for an extensive empire, which, they flatter themselves, will become, and which, indeed, seems very likely to become, one of the greatest and most formidable that ever was in the world. (IV.vii.c, 75)

Today, the statesmen and legislators of the richest and most powerful country on earth invoke Smith like few others. Even if the idea of non-interference by the state is occasionally taken to extremes, the former colonies are a success story. Smith, as a representative of the eighteenth century, could not have foreseen the problems with which the modern post-industrial, global society of the twenty-first century is confronted, but his prognosis about the formidable development of the American colonies turned out to be accurate. Global trade and minimal interference by the state may not have created a new form of government, but the former colonies of America have themselves become "an extensive empire."

Large parts of *The Wealth of Nations* are devoted to a critique of the economic theory of mercantilism, and it is significant that Smith never mentions James Steuart or his well-known *An Inquiry into the Principles of Political Economy*, published in 1767. Mercantilism was the dominant economic policy of absolutist states, especially from the 16th to the eighteenth century. It is understood to be an economic

policy in which the state strongly influences the economy, and all measures serve the one goal of increasing national wealth and thereby strengthen the power and influence of the state. The intervention of mercantilism takes place at various levels as Smith shows. However, it manifests itself particularly through state control of foreign trade, in the demarcation against other states, and thus presents itself as a policy strongly directed towards its own interests,

> instead of allowing every man to pursue his own interest in his own way, upon the liberal plan of equality, liberty, and justice, (IV.ix, 3)

as Smith points out with reference to the French economic policy under Minister Jean Baptiste Colbert.

A mercantilist government strives to achieve a trade surplus, i.e. to export more products than it imports. Therefore, if possible, only raw materials are imported in order to export labour-intensive finished products in return. If more goods are imported than exported tariffs and other trade barriers are imposed by the government to counteract the perceived impoverishment of the country. Smith sees that such barriers to trade and imported goods in particular often negatively impact the domestic economy and he explains the instruments used in mercantilism to achieve a trade surplus. On the one hand, imports are restricted or even prevented. On the other, exports are strongly encouraged through financial incentives. New markets abroad, especially in the colonies, as well as unilateral trade treaties also help to export domestic goods.

> First, restraints upon the importation of such foreign goods for home consumption as could be produced at home, from whatever country they were imported.
>
> Secondly, restraints upon the importation of goods of almost all kinds from those particular countries with which the balance of trade was supposed to be disadvantageous.
>
> Those different restraints consisted sometimes in high duties, and sometimes in absolute prohibitions.
>
> Exportation was encouraged sometimes by drawbacks, sometimes by bounties, sometimes by advantageous treaties of commerce with foreign states, and sometimes by the establishment of colonies in distant countries.
>
> Drawbacks were given upon two different occasions. When the home manufactures were subject to any duty or excise, either the whole or a part of it was frequently drawn back upon their exportation; and when foreign goods liable to a duty were imported in order to be exported again, either the whole or a part of this duty was sometimes given back upon such exportation.
>
> Bounties were given for the encouragement either of some beginning manufactures, or of such sorts of industry of other kinds as supposed to deserve particular favour. (IV.i, 37–42)

Smith shows how these instruments of mercantilism do more harm than good to the wealth of a nation. First, he explains the effect of import restrictions on foreign goods that can be produced in the country itself. If the import of goods that can also be produced domestically is restricted or even banned by tariffs domestic goods face no competition and gain exclusive access to a market, i.e. a quasi-monopoly ensues. Although this boosts certain branches of economic activity, there is a danger that capital and labour will be drawn away from other areas of the economy. Eventually the promotion of a single branch of the economy does not necessarily increase the overall prosperity of a nation.

Smith is therefore extremely sceptical and argues for non-intervention by the government. He is convinced that individuals know best how to use their capital profitably and everybody's self-interest will lead to the optimal use of capital. Through this individual decision everyone will also contribute to making the national income as high as possible without the individual taking this into account in their initial calculation. Here Smith again takes up the motif of the invisible hand which leads to everyone safeguarding their own interests without primarily thinking of the common good.

> As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it. (IV.ii, 9)

State intervention that forces private individuals to invest their capital in a certain way inevitably leads to misallocation and steers the flow of capital in the wrong direction because in Smith's view politicians lack relevant expertise of economic matters. This is also the case in import restrictions which channel capital into less profitable branches of an activity.

> To give the monopoly of the home market to the produce of domestic industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation. If the produce of domestic can be brought there as cheap as that of foreign industry, the regulation is evidently useless. If it cannot, it must generally be hurtful. It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion for. (IV.ii, 11)

Here Smith shows that state interference as described in *The Wealth of Nations* is harmful. He also demonstrates again that the division of labour and the ability to barter result in welfare-enhancing specialisation so that all people concentrate on the sphere of employment "in which they have some advantage over their neighbours." Smith argues that what is reasonable individually or for a single family must also be reasonable for a nation.

> What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves

> can make it, better buy it of them with some part of the produce of our own industry employed in a way in which we have some advantage. (IV.ii, 12)

In this context it is advisable that governments work towards an international division of labour whereby specialisation takes place as far as possible without state stimulation, guidance or protection, that is without political interference.

> It could, therefore, have been purchased with a part only of the commodities, or, what is the same thing, with a part only of the price of the commodities, which the industry employed by an equal capital would have produced at home, had it been left to follow its natural course. The industry of the country, therefore, is thus turned away from a more to a less advantageous employment, and the exchangeable value of its annual produce, instead of being increased, according to the intention of the lawgiver, must necessarily be diminished by every such regulation. (IV.ii, 12)

Smith concedes that such industries can be built up through import restrictions on goods that are also produced domestically. Products from these branches of the economy will eventually go down in price in the country of origin. The national income will not increase but will decrease because less capital will be saved during that time. The higher expenditure on these products means that capital is used less profitably; prosperity increases more slowly than would be the case without import restrictions.

However, Smith allows two exceptions to import restrictions. One is when national security issues are at stake and the other is when domestic goods are taxed.

> The first is, when some particular sort of industry is necessary for the defence of the country. The defence of Great Britain, for example, depends very much upon the number of its sailors and shipping. The Act of Navigation, therefore, very properly endeavours to give the sailors and shipping of Great Britain the monopoly of the trade of their own country in some cases by absolute prohibitions and in others by heavy burdens upon the shipping of foreign countries. (IV.ii, 24)

The Act of Navigation, introduced by Oliver Cromwell in 1651, had two effects: it directly contributed to the preservation and strengthening of England's armed forces, and it indirectly led to England becoming an international leader as a seafaring and trading nation. Here Smith subordinates the goal of free trade to the goal of a country's security.

> As defence, however it is of much more importance than opulence, the Act of Navigation is, perhaps, the wisest of all the commercial regulations of England. (IV.ii, 30)

Another reason for the permissibility of levies on foreign products is when domestic production is artificially made more expensive by taxes. This ensures competition between foreign and domestic goods. However, these levies should not be higher than domestic taxes.

> The second case, in which it will generally be advantageous to lay some burden upon foreign for the encouragement of domestic industry is, when some tax is imposed at home upon the produce of the latter. In this case, it seems reasonable that an equal tax should be imposed upon the like produce of the former. This would not give the monopoly of the home market to domestic industry, nor turn towards a particular employment a greater share of the stock and labour of the country than what would naturally go to it. It would only

> hinder any part of what would naturally go to it from being turned away by the tax into a less natural direction, and would leave the competition between foreign and domestic industry, after the tax, as nearly as possible upon the same footing as before it. (IV.ii, 31)

There are several reasons why Smith thinks that a levy on foreign goods to compensate for taxes on domestic products has a detrimental effect on society and the market. On the one hand domestic production is unjustifiably protected by such a levy and on the other hand politicians are giving in to entrepreneurs who naturally welcome levies on foreign goods.

> In Great Britain, when any such tax is laid upon the produce of domestic industry, it is usual at the same time, in order to stop the clamorous complaints of our merchants and manufacturers that they will be undersold at home, to lay a much heavier duty upon the importation of all foreign goods of the same kind. (IV.ii, 31)

For Smith, domestic production may only be protected artificially when other nations restrict their own imports through high tariffs or import bans. Temporary retaliatory measures may then be imposed. However, such measures are only effective if they cause the other country to drop its tariffs or restrictions and thus restore free trade.

> The recovery of a great foreign market will generally more than compensate the transitory inconveniency of paying dearer during a short time for some sorts of goods. To judge whether such retaliations are likely to produce such an effect does not, perhaps, belong so much to the science of a legislator, whose deliberations ought to be governed by general principles which are always the same, as to the skill of that insidious and crafty animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs. When there is no probability that any such repeal can be procured, it seems a bad method of compensating the injury done to certain classes of our people to do another injury ourselves, not only to those classes, but to almost all the other classes of them. (IV.ii, 39)

Smith is very sceptical about the use of import restrictions imposed as protective action against a country that does not allow imports. Here he sees a task for the "insidious and crafty animal, vulgarly called a statesman or politician." Throughout *The Wealth of Nations* Smith is critical of political activity and his assessment is ambivalent: to him politicians are non-professionals, at best naïve and at worst opportunists who act according to public opinion. They may not always use their position of power for the benefit of the country, but they sometimes do make genuinely beneficial decisions in the interest of the common good. Smith observes that in mercantilism politicians are more inclined to enforce the interest of entrepreneurs and merchants, both nationally and internationally. Also, sanctions and prohibitions are often based on political rather than economic necessity, which to Smith highlights their economic role and importance.

If individual domestic industries are protected for reasons of equal treatment there is a great danger that this protectionism will continue even if the actual "punishment" or "retaliation" against foreign countries is no longer necessary. The removal of protection against foreign competition can then be a problem.

> Humanity may in this case require that the freedom of trade should be restored only by slow gradations, and with a good deal of reserve and circumspection. Were those high duties and

> prohibitions taken away all at once, cheaper foreign goods of the same kind might be poured so fast into the home market as to deprive all at once many thousands of our people of their ordinary employment and means of subsistence. (IV.ii, 40)

Smith sees that goods which are exported to other countries even without premiums often remain competitive and retain their dominant position in their country of production. For England in the eighteenth century these were in particular wool, leather and goods made from iron and those goods designed for export employed the majority of workers at the time.

Smith then goes on to examine import restrictions that apply to all goods originating from countries with which the balance of trade is in deficit. Smith considers these economic policies nonsense even according to the principles of mercantilism. He rejects blanket import bans on goods from a particular country since they are not justifiable in his view.

> Nothing, however, can be more absurd than this whole doctrine of the balance of trade, upon which, not only these restraints, but almost all the other regulations of commerce are founded. (IV.iii.c, 2)

In the spirit of the division of labour it is always advantageous when people concentrate on producing goods according to their abilities. This concept may also be applied to two places or two countries that specialise in the production of certain goods. Through exchange in the form of trade they supply each other with goods by mutual agreement and to their mutual advantage, since every partner produces goods effectively and efficiently. Any regulatory intervention, any protectionist intervention disrupts this mechanism of exchange and the advantages of the division of labour cannot unfold in an ideal way.

> But that trade which, without force or constraint, is naturally and regularly carried on between any two places is always advantageous, though not always equally so, to both. (IV.ii.c, 2)

Moreover, Smith rejects mercantilism because he considers its thesis of an equilibrium in the balance of trade or even a trade surplus untenable. It is not the balance of trade that is decisive for the prosperity of nations, but the balance of the annual produce and consumption in a country.

> There is another balance, indeed, which has already been explained, very different from the balance of trade, and which, according as it happens to be either favourable or unfavourable, necessarily occasions the prosperity or decay of every nation. This is the balance of the annual produce and consumption. […] This balance of produce and consumption is entirely different from what is called the balance of trade. It might take place in a nation which had no foreign trade, but which was entirely separated from all the world. It may take place in the whole globe of the earth, of which the wealth, population, and improvement may be either gradually increasing or gradually decaying.
>
> The balance of produce and consumption may be constantly in favour of a nation, though what is called the balance of trade be generally against it. A nation may import to a greater value than it exports for half a century, perhaps, together. (IV.iii.c, 15–17)

Nevertheless, according to Smith, for a country that imports more than it exports, its real wealth, the exchange value of the annual product of land and labour, may have

increased far more. This balance, then, can be constantly favourable to a country even if its trade balance is negative. Such a situation developed in the trade between England and her American colonies.

According to Smith mercantilist thinking is the driving motive for merchants and entrepreneurs trying to gain a monopoly in the domestic market. This is comparable to the efforts of master craftsmen who want to prevent residents of a particular town from placing their orders with craftsmen from other towns.

> That it was the spirit of monopoly which originally both invented and propagated this doctrine cannot be doubted; and they who first taught it were by no means such fools as they who believed it. (IV.iii.c, 10)

Egoistic thinking leads to high tariffs on goods produced abroad; goods that might well compete with domestic products. And even financial and political aid to support exports is ultimately based on the desire of merchants and entrepreneurs for a monopoly.

> Merchants and manufacturers are not contented with the monopoly of the home market, but desire likewise the most extensive foreign sale for their goods. Their country has no jurisdiction in foreign nations, and therefore can seldom procure them any monopoly there. They are generally obliged, therefore, to content themselves with petitioning for certain encouragements to exportation. (IV.iv, 1)

Export premiums enable a country's merchants and entrepreneurs to sell their goods abroad cheaper than their foreign competitors on the foreign market. This may then increase a country's exports. Smith criticises bounties because, like import restrictions, they misdirect capital and prevent the optimal use of resources.

> The effect of bounties, like that of all the other expedients of the mercantile system, can only be to force the trade of a country into a channel much less advantageous than that in which it would naturally run of its own accord. (IV.v.a, 3)

Through these bounties, consumers in particular are disadvantaged since they have to pay excessive prices, while merchants and traders reap the benefits of misdirected politics.

> But in the mercantile system the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce. (IV.viii, 49)

Smith is one of the first to develop a consumer-oriented economic theory; for him, the rights of the consumer are equal to those of the producer. Mercantilist economic policy, on the other hand, unilaterally favours producers. A disadvantage for consumers also results from the trade treaties between Great Britain and some foreign nations. Smith explains the harmful effect of trade treaties on the population at home and cites Portugal as an example. In the eighteenth century Britain imported some goods exclusively from Portugal due to government agreements; countries where these goods would have been cheaper were prevented from exporting to Britain so that British consumers had to pay higher prices.

> By the famous treaty of commerce with Portugal, the consumer is prevented by high duties from purchasing of a neighbouring country a commodity which our own climate does not

> produce, but is obliged to purchase it of a distant country, though it is acknowledged that the commodity of the distant country is of a worse quality than that of the near one. The home consumer is obliged to submit to this inconveniency in order that the producer may import into the distant country some of his productions upon more advantageous terms than he would otherwise have been allowed to do. The consumer, too, is obliged to pay whatever enhancement in the price if those very productions this forced exportation may occasion in the home market. (IV.viii, 52)

Thus mercantilism, as well as any form of intervention in free trade, violates the economic self-determination of the individual. Like his eminent predecessor Locke, Smith sees the natural freedom of the individual endangered by state intervention. The treaty with Portugal serves Smith as an argument against an economic policy based on the theory of mercantilism which abandons the freedom of the individual in favour of an influential minority of well-connected merchants. Smith's arguments are persuasive because they are not based exclusively on the political or economic mood of the moment. Rather they are based on what Smith sees as the natural freedom of the individual and a legitimate self-interest expressed in free society.

> It is unnecessary, I imagine, to observe how contrary such regulations are to the boasted liberty of the subject, of which we affect to be so very jealous; but which, in this case, is so plainly sacrificed to the futile interests of our merchants and manufacturers.
>
> The laudable motive of all these regulations is to extend our own manufactures, not by their own improvement, but by the depression of those of all our neighbours, and by putting an end, as much as possible, to the troublesome competition of such odious and disagreeable rivals. (IV.viii, 47–48)

As much as Smith rejected mercantilism and its predominant role in the eighteenth century by dedicating 200 pages of *The Wealth of Nations* to a most detailed criticism, he was fascinated by an economic theory that seemed to promise new approaches to the wealth of nations: the theory of the physiocrats. But like the mercantilists the physiocrats violated the precept of equal treatment of the various branches of the economy. They saw agriculture as the only source of prosperity, but in contrast to the mercantilist system the physiocrats' ideas were untested, a purely theoretical model.

> That system which represents the produce of land as the sole source of the revenue and wealth of every country has, so far as I know, never been adopted by any nation, and it at present exists only in the speculations of a few men of great learning and ingenuity in France. (IV.ix, 2)

Smith had met the physician and economist François Quesnay on his trip to France. This "very ingenious and profound author," who established the physiocrats in France, was the king's personal physician and one of the country's leading intellectuals. He made a great impression on Smith, and it is even often claimed that Smith took much of his economic theory from the physiocrats and especially from Quesnay's writing, *Tableau économique*, the Economic Table. This view is certainly exaggerated, but Smith valued Quesnay as a person and as an astute thinker. He originally intended to dedicate *The Wealth of Nations* to Quesnay; however, the Frenchman died 2 years before the book was completed.

There are many parallels between Smith's works and the writings of the physiocrats. For example, scientific thinking, which was of course also reflected in the language shaped the popular idea of the interrelationships and functional mechanisms of the world. The physiocrats illustrated economic mechanisms with the metaphor of the body, in which blood circulates as money does in the economy. Quesnay, the physician interested in the theory of science, was particularly suited to such a representation even though the image of blood circulation in the closed system of the body was already in use before him. The eighteenth century saw in mechanical clockwork and in the human body parallels for descriptive models of reality that were comprehensible to readers without a scientific background and thus immediately obvious. Smith is no exception here either, incorporating into *The Wealth of Nations* what his contemporaries took for granted as perfectly convincing metaphors. However, in the case of both Quesnay and Smith this is the typical scientific discourse of the time which was familiar to all educated readers.

The seemingly striking similarities and parallels between Smith and Quesnay did not seem particularly remarkable to their contemporaries. Smith may have used similar imagery and advocated free trade and his *The Wealth of Nations* was published after he had read the physiocrats and he was in personal contact with them, but Smith by no means presents merely a revised version of physiocratic thought. He is aware of the weaknesses of physiocrat theory and does not adopt their model without reservation. His criticism is well-founded in terms of reasoning and therefore, despite all the similarities, he presents a rather differentiated economic theory. He shares the critical attitude towards mercantilism, but points out that the physiocrats underestimated individual initiative and that François Quesnay

> seems not to have considered that, in the political body, the natural effort which every man is continually making to better his own condition is a principle of preservation capable of preventing and correcting, in many respects, the bad effects of a political economy, in some degree, both partial and oppressive. Such a political economy, though it no doubt retards more or less, is not always capable of stopping altogether the natural progress of a nation towards wealth and prosperity, and still less of making it go backwards. If a nation could not prosper without the enjoyment of perfect liberty and perfect justice, there is not in the world a nation which could ever have prospered. In the political body, however, the wisdom of nature has fortunately made ample provision for remedying many of the bad effects of the folly and injustice of man, in the same manner as it has done in the natural body for remedying those of his sloth and intemperance. (IV.ix, 29)

Smith appreciates the clarity of Quesnay's approach, and his own economic thinking overlaps with physiocratic theory in some respects even if he disagrees for example in the assessment of the role of agriculture. For the physiocrats it was agriculture only that guaranteed an increase in national wealth. Smith's economic thinking, on the other hand, shows how important the productive output of those trades and professions is that were neglected by the physiocrats—the craftsmen, entrepreneurs and merchants.

> The capital error of this system, however, seems to lie in its representing the class of artificers, manufacturers, and merchants as altogether barren and unproductive. (IV.ix, 29)

Smith may have been critical of some fundamental assumptions made by Quesnay but it is clear from his remarks which aspects of physiocratic thought he particularly appreciates. This is first and foremost the physiocrats'critical attitude towards mercantilism and their special emphasis on personal freedom.

> This system, however, with all its imperfections is, perhaps, the nearest approximation to the truth that has yet been published upon the subject of political economy, and is upon that account well worth the consideration of every man who wishes to examine with attention the principles of that very important science. Though in representing the labour which is employed upon land as the only productive labour, the notions which it inculcates are perhaps too narrow and confined; yet in representing the wealth of nations as consisting, not in the unconsumable riches of money, but in the consumable goods annually reproduced by the labour of the society, and in representing perfect liberty as the only effectual expedient for rendering this annual reproduction the greatest possible, its doctrine seems to be in every respect as just as it is generous and liberal. Its followers are very numerous; and as men are fond of paradoxes, and of appearing to understand what surpasses the comprehension of ordinary people, the paradox which it maintains, concerning the unproductive nature of manufacturing labour, has not perhaps contributed a little to increase the number of its admirers. (IV.ix, 38)

The physiocrats advocated an economic theory based on natural law in which they developed a convincing macroeconomic account of some economic mechanisms in the eighteenth century. In their model the natural order of society is based on the harmonious balance of different interests which develop best in freedom and only in this way guarantee a benefit for society. Smith's criticism of their theory lies in their exclusive emphasis on agriculture, which is the only productive activity in physiocratic theory, and in their critical attitude towards the state. Despite his admiration for and appreciation of Quesnay Smith does not endorse physiocratic ideas, especially in light of his critical view of agriculture as the basis of the wealth of a nation.

The notion of laissez faire, often wrongly attributed to Smith, originates in the economic theory of the physiocrats and does not appear in *The Wealth of Nations*. Although Smith is fundamentally convinced of the benefits of limited state interference he does assign certain crucial tasks to the state. Much later the concept of the night-watchman state, or minarchy, was conceived by Ferdinand Lassalle and it proposes a minimal role for the state that is detrimental to Smith's views in *The Wealth of Nations*.

Questions

How does Adam Smith's concept of justice, freedom, and equality relate to economic prosperity?

In what ways does Adam Smith evaluate mercantilism, and what are the main instruments of this economic policy? What alternative economic policies does he propose?

How does Adam Smith view the role of politicians in implementing trade policies, especially in the context of mercantilism?

What are the key differences between Adam Smith's economic theory and that of the physiocrats, especially regarding their views on agriculture and national wealth?

What is Adam Smith's analysis of the long-term consequences of the colonial trade monopoly?
What importance does Adam Smith place on the American colonies, and how does he view their economic future?
What is Adam Smith's view of colonial trade, and why does he argue that it ultimately harms both the colonizing nation and the colonies?
How does Adam Smith view the role of government in balancing individual desires and the welfare of the community?
What does Adam Smith mean by "a liberal principle of order" and how does it relate to government non-interference?
What does Adam Smith mean by the phrase "a nation of shopkeepers," and how does it relate to his views on eighteenth-century British society?

Role of State and Church

Abstract In "*The Wealth of Nations*," Adam Smith explores how individual self-interest can align with the common good in a well-functioning society. He argues that human beings are naturally inclined to seek self-preservation but are also equipped for social interaction, making life in society possible. Smith advocates for a liberal system where government interference is minimal and individuals are free to pursue their own interests, with the government stepping in only to prevent harm or injustice. He emphasizes that justice, freedom, and equality are crucial for national prosperity across all social classes.

Smith compares the organization of society and the state to the human body and suggests that a healthy state, like a healthy body, is to a certain degree resilient to external forces. His view of a limited role of government thus primarily focuses on national security and investments in infrastructure, from transport to education. His views on education recognize the economic importance of a well-trained workforce that performs adequately. He believes that individuals, acting in their own self-interest, will naturally contribute to the wealth of the nation, ideally without government direction, and that the same is true for the economic interaction of nations. Smith supports the idea of an international division of labour, where specialization happens naturally without state intervention, and he sees equal and balance relations between nations as crucial.

He also stresses the importance of a regulated banking industry and recommends paper money. Smith considers a fair, efficient, and transparent system of taxation all-important which is based on different types of income. In this, the principle of social justice is indicative of his liberal views of a modern society, and he maintains that a fair system of taxation lies at the heart of a functioning state.

Smith also emphasizes the importance of a moderate, non-partisan Church as a stabilizing force in society, helping to prevent discontent, superstition, and social unrest. He sees religion as central to maintaining social order, with the Church playing a key role in supporting morality and public welfare, though he warns against the negative impact of religious fragmentation. Smith advocates for a stable society, recognizing the essential social role of the Church and its clergy, and he argues for a free market with minimal government interference, while recognizing that the state has essential functions to fulfil in society.

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_12

Adam Smith states that all social groups in a society must be treated equally; this feeds into his critique of mercantilism and the physiocrats. In his view, the state must not pursue sectoral and group-specific policies and must not promote individual groups unilaterally. This also applies in the area of trade with other nations. Although he argues in favour of free trade, Smith sees that in the eighteenth century the establishment of a perfect free trade is unrealistic.

> To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it. (IV.ii, 43)

And what is true for free trade also applies within the state, according to Smith. Natural freedom of the individual includes the free choice of profession or place of residence for every person. Smith rejects one-sided legislation as detrimental to the interest of society as a whole, as he shows in his discussion of craftsmen's guilds, for instance. Decisive for the development of a country is the economic freedom of the individual which results from the political implementation of the principle of natural freedom. In the eighteenth century few states guaranteed unrestricted natural liberty and for Smith restrictive laws had a crippling effect on the full development of society.

> The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security is so powerful a principle that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operations; though the effect of these obstructions is always more or less either to encroach upon its freedom, or to diminish its security. (IV.v.b, 43)

Nevertheless, Smith is optimistic enough that often despite restrictive government policies the prosperity of nations can develop. Again the metaphor of the human body illustrates the functioning of society and Smith vividly depicts the operating principles of control and influence from outside.

> Experience, however, would seem to show that the human body frequently preserves, to all appearances at least, the most perfect state of health under a vast variety of different regimens; even under some which are generally believed to be very far from being perfectly wholesome. But the healthful state of the human body, it would seem, contains in itself some unknown principle of preservation, capable either of preventing or of correcting, in many respects, the bad effects even of a very faulty regimen. (IV.ix, 28)

Smith transfers the behaviour of the healthy body to the entity of the state, which, like a human body, itself develops forces of resistance. It is to a certain extent immune to the interference of the state that could endanger this body.

> The uniform, constant, and uninterrupted effort of every man to better his condition, the principle from which public and national, as well as private opulence is originally derived, is frequently powerful enough to maintain the natural progress of things towards improvement, in spite both of the extravagance of government and of the greatest errors of administration. Like the unknown principle of animal life, it frequently restores health and vigour to the constitution, in spite, not only of the disease, but of the absurd prescriptions of the doctor. (II.iii, 31)

The metaphorical description of the well-functioning commonwealth illustrates how human endeavours benefit the market and society despite state intervention. For just as the mechanical and physiological interactions of the human body began to be studied and understood in terms of cause and effect in the eighteenth century, Smith sees society and the national economy by analogy. Bernard Mandeville, François Quesnay and Oliver Goldsmith were qualified physicians by profession who strongly influenced Smith even if he had some reservations. He also lived at a time when bloodletting and cupping were normal medical practices, and many patients met an all-too-early end as a result of doctor's orders. In this passage, Smith succeeds in enhancing a well-known image with topical references to his time. This includes a thinly-veiled criticism of the extravagance of government, the greatest errors of administration and the absurd prescriptions of doctors, all of which, however, luckily fail to kill the patient and the state. Rhetorically skilful Smith thus gives the well-known metaphor an extended cultural meaning by criticising naive politicians and the incompetent medical profession.

Crucial, however, in the passage quoted here is Smith's analysis that the uniform, continuous and uninterrupted striving of everyone for better conditions of life is causally connected with the increase of capital. The cause and source of public and national as well as private prosperity is thus based on a natural economic impulse that manifests itself in the form of invested capital. And since most people follow their nature even an incompetent or antisocial individual cannot cause the collapse of the entire system. Occasional waste and mismanagement on a private and public basis are mostly compensated for by society as a whole. This self-healing process of the national economy, to remain in Smith's image of medicine, is an important argument with regard to the ideal of a liberal form of government; an idea that is repeatedly propagated in *The Wealth of Nations*. In particular in his critique of the theory of the physiocrats Smith does see the importance of government. He frequently points to certain tasks that fall to the state and that can only be fulfilled by the state. For it is in the nature of a society that there are certain tasks which are not covered by individual interests, but which must be performed by the general public.

Interference in the market by a government is mostly to be avoided since, in Smith's opinion, this is on the agenda of lobbyists or interest groups for selfish reasons. But if the invisible hand regulates the market largely without outside intervention there are some duties for the sovereign:

> According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings: first, the duty of protecting the society from violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society. (IV.ix, 51)

The tasks of the sovereign are thus reduced to those particular social spheres where human nature and in particular the urge for self-preservation jeopardizes the welfare of society as a whole. Smith, though a vehement advocate of state non-interference in all areas of society clearly defines the role of the state in certain areas to keeping society operational. The entire fifth book of *The Wealth of Nations*, "The Revenue of the Sovereign or Commonwealth," is therefore devoted to a discussion that relates exclusively to the tasks of the state.

One aspect of the state's services that fall exclusively to the government is national defence. Here the government gathers and manages resources to ensure and maintain the security and preservation of the state. The more advanced a society is the more important a strategic involvement of the government becomes, because experts in their respective professions do not necessarily make good soldiers as Smith points out.

> A shepherd has a great deal of leisure; a husbandman, in the rude state of husbandry, has some; an artificer or manufacturer has none at all. The first may, without any loss, employ a great deal of his time in martial exercises; the second may employ some part of it; but the last cannot employ a single hour in them without some loss, and his attention to his own interest naturally leads him to neglect them altogether. These improvements in husbandry too, which the progress of arts and manufactures necessarily introduces, leave the husbandman as little leisure as the artificer. Military exercises come to be as much neglected by the inhabitants of the country as by those of the town, and the great body of the people becomes altogether unwarlike. That wealth, at the same time, which always follows the improvements of agriculture and manufactures, and which in reality is no more than the accumulated produce of those improvements, provokes the invasion of all their neighbours. An industrious, and upon that account a wealthy nation, is of all nations the most likely to be attacked […]. (V.i.a, 15)

From this a catalogue of measures for the defence of the state can be derived since the government needs to find suitable methods to guarantee the security of the inhabitants. Here Smith argues particularly carefully, because many articles in magazines and journals of the eighteenth century point out the advantages and also the dangers of a so-called standing army. Public opinion was divided on having a permanent professional group of soldiers ready at all times and the pros and cons were discussed rather controversially by Smith's contemporaries against the background of state, economy and society.

> [U]nless the state takes some new measures for the public defence, the natural habits of the people render them altogether incapable of defending themselves.
>
> In these circumstances there seem to be but two methods by which the state can make any tolerable provision for the public defence.
>
> It may either, first, by means of a very rigorous police, and in spite of the whole bent of the interest, genius, and inclinations of the people, enforce the practice of military exercises, and oblige either all the citizens of the military age, or a certain number of them, to join in some measure the trade of a soldier to whatever other trade or profession they may happen to carry on.
>
> Or, secondly, by maintaining and employing a certain number of citizens in the constant practice of military exercises, it may render the trade of a soldier a particular trade, separate and distinct from all others. (V.i.a, 15–18)

Internal security, in particular the jurisdiction of a state, cannot be guaranteed by individuals. Here, too, Smith examines the social advantages and disadvantages of such public tasks, taking into account the different stages of historical, political and social development.

> The second duty of the sovereign, that of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice, requires, too, very different degrees of expense in the different periods of society. (V.i.b, 1)

Smith's historical approach ranges from hunter peoples without private property to the market society of the eighteenth century. He emphasises that in his time society developed to full bloom, the pivot of human civilisation. This stadial view of history, which repeatedly refers to different stages in historical development from a teleological perspective can thus deduce the present state of development as a logical consequence and the best of all possible forms of society. For Smith it is crucial that the administration of justice and executive power are separated from each other. This is the only way to preserve a just state.

> When the judicial is united to the executive power, it is scarce possible that justice should not frequently be sacrificed to what is vulgarly called polities. The persons entrusted with the great interests of the state may, even without any corrupt views, sometimes imagine it necessary to sacrifice to those interests the rights of a private man. But upon the impartial administration of justice depends the liberty of every individual, the sense which he has of his own security. In order to make every individual feel himself perfectly secure in the possession of every right which belongs to him, it is not only necessary that the judicial should be separated from the executive power, but that it should be rendered as much as possible independent of that power. The judge should not be liable to be removed from his office according to the caprice of that power. The regular the good-will or even upon the good economy payment of his salary should not depend upon of that power. (V.i.b, 25)

In addition to these expenditures for internal and external security, Smith also deems the state responsible in those areas that facilitate trade and enable the advancement of society's level of general education. The development and maintenance of infrastructure is yet another area of responsibility and here Smith primarily considers the construction, preservation and financing of transport routes. In this context he sees opportunities not only to maintain the infrastructure, but also to create social justice and social balance at the same time.

> When the toll upon carriages of luxury upon coaches, post-chaises, etc., is made somewhat higher in proportion to their weight than upon carriages of necessary use, such as carts, waggons, etc., the indolence and vanity of the rich is made to contribute in a very easy manner to the relief of the poor, by rendering cheaper the transportation of heavy goods to all the different parts of the country. (V.i.d, 5)

It is interesting to observe that in building up a country's infrastructure, Smith proceeded according to the idea of financial justice and equality that those who can give more should in fact give more. His attitude towards luxury shaped by the ideal of frugality also plays a role here. He sees a way to justly redistribute the means of the wealthy and thus arrives at the first beginnings of a socially oriented idea of tax redistribution.

In addition to organising and ensuring the infrastructure that guarantees the prosperity of society as a whole, the task of the state is also geared towards protecting the individual. Thus, in view of the special importance of the role of money, Smith assigns the state a special function specifically in banking supervision and coinage.

> To prevent such abuses, to facilitate exchanges, and thereby to encourage all sorts of industry and commerce, it has been found necessary, in all countries that have made any considerable advances towards improvement, to affix a public stamp upon certain quantities of such particular metals as were in those countries commonly made use of to purchase goods. Hence the origin of coined money, and of those public offices called mints […]. (I.iv, 7)

Although Smith is generally in favour of freedom of competition in *The Wealth of Nations*, and this of course also applies to the banking industry, he nevertheless advocates state regulation of the circulation of banknotes if there is a danger that the security of society might be jeopardised. And state regulation is necessary because Smith sees the benefits of professionalising the banking industry and especially the use of paper money. If the banking industry is controlled by an impartial external agency and therefore reliable and safe, the cost of money can be reduced by the use of paper money in the form of banknotes.

After all, money costs money. Since the production of coins in itself involves precious metals, labour, toil and expense, Smith advocates the issue of paper money. This can be produced with comparatively little effort, it is easy to store, easy to transport and easy to replace. It can fulfil its exchange function just like gold or silver, but it is a lot cheaper.

> The substitution of paper in the room of gold and silver money, replaces a very expensive instrument of commerce with one much less costly, and sometimes equally convenient. Circulation comes to be carried on by a new wheel, which it costs less both to erect and to maintain than the old one. (II.ii, 26)

However, according to Smith certain conditions must be met for paper money to be generally accepted in society. It seems important to him that paper money is backed by precious metals. The idea of banknotes was very advanced for the eighteenth century, but Smith also attaches importance to the fact that paper money can be exchanged for gold or silver at any time.

> A paper money consisting in bank notes, issued by people of undoubted credit, payable upon demand without any condition, and in fact always readily paid as soon as presented, is, in every respect, equal in value to gold and silver money; since gold and silver money can at any time be had for it. Whatever is either bought or sold for such paper must necessarily be bought or sold as cheap as it could have been for gold and silver. (II.ii, 95)

This gives the state another important role in protecting the individual; the government ensures that the risk of economic transactions is reduced or eliminated as far as possible. At the same time the state prevents possible abuse through its regulatory legislation.

And finally, a governmental task must be seen in connection with the representational duties of the head of state. According to Smith, the monarch must represent the state adequately; pomp and circumstance are in this case indispensable, visible tokens of importance and power. Rather than an objectively justifiable necessity

money spent on public representation and displays of grandeur allows for an expression of a people's perceived importance.

Education as one of the key responsibilities of the state plays an important role in *The Wealth of Nations*. Apart from a few brief remarks in the first book Smith focuses primarily on education in the fifth book of *The Wealth of Nations*. He discusses the role of schools, university education, the cost of education to society, quality control in education, fair procedures for rewarding teachers and professors, the role of the Church in education, and the social impact of education on different groups in society.

Influenced by personal experience Smith has rather firm views on what the role of the state in education should ideally be. Smith spent his entire life in research and education: He was a pupil, a student, then a tutor and finally university professor and is committed to the view that society as a whole benefits most if the salary of an instructor is performance-related.

> In modern times, the diligence of public teachers is more or less corrupted by the circumstances which render them more or less independent of their success and reputation in their particular professions. Their salaries, too, put the private teacher, who would pretend to come into competition with them, in the same state with a merchant who attempts to trade without a bounty in competition with those who trade with a considerable one. If he sells his goods at nearly the same price, he cannot have the same profit, and at least, if not bankruptcy and ruin, will infallibly be his lot. If he attempts to sell them much dearer, he is likely to have so few customers that his circumstances will not be much mended. (V.i.f, 45)

This statement is based on the observation that the lack of performance control among teachers may lead to boring lessons and a certain lack of educational enthusiasm of both student and teacher. But eagerness to work and diligence are fundamental requirements for successful teaching, which is supposed to produce much more than academic success and enhance the teacher's reputation. The educational mandate that society has taken on serves first and foremost to preserve the community, for the better educated the individual members are the more they contribute to general prosperity. It is therefore unacceptable that society, which finances education and expects a corresponding return on academic investment is undermined by lazy, incompetent and unwilling teachers.

> A private teacher could never find his account in teaching either an exploded and antiquated system of a science acknowledged to be useful, or a science universally believed to be a mere useless and pedantic heap of sophistry and nonsense. Such systems, such sciences, can subsist nowhere, but in those incorporated societies for education whose prosperity and revenue are in a great measure independent of their reputation and altogether independent of their industry. (V.i.f, 46)

Educational institutions are obliged to fulfil their mandate and guarantee adequate performance. Smith therefore sees the possibility of quality control in the field of education only in the monitoring of teaching performance and in the opening up of competition in the field of pedagogy. However, Smith's take on the evaluation of education and the review of the quality of teaching does not seem fully developed. It cannot be entirely at the discretion of students whether they consider a lesson to be successful from an academic point of view and adequate procedures must be

developed to ensure that the knowledge imparted is up to date. Otherwise, students might be judging instruction purely on sympathy and appreciate the most lenient instructor the most. And who is to judge the "useless and pedantic heap of sophistry and nonsense" in lectures? And who ultimately determines the value of knowledge?

Smith's critique of education and his fundamental appreciation of learning in general marks an important development in the eighteenth century, by no means perceived by all his contemporaries that all social groups should be able to get an education. This assessment is not primarily based on egalitarian thinking that wishes to grant all people the same educational opportunities; rather, in the interest of an economically successful society, Smith calls for a sufficiently educated population that is in a position to maintain the prosperity of a nation as qualified specialists. Thus he advocates educational opportunities especially for the underprivileged who are traditionally underrepresented in all matters educational.

> The education of the common people requires, perhaps, in a civilised and commercial society the attention of the public more than that of people of some rank and fortune. People of some rank and fortune are generally eighteen or nineteen years of age before they enter upon that particular business, profession, or trade, by which they propose to distinguish themselves in the world. They have before that full time to acquire, or at least to fit themselves for afterwards acquiring, every accomplishment which can recommend them to the public esteem, or render them worthy of it. Their parents or guardians are generally sufficiently anxious that they should be so accomplished, and are, in most cases, willing enough to lay out the expense which is necessary for that purpose. If they are not always properly educated, it is seldom from the want of expense laid out upon their education, but from the improper application of that expense. (V.i.f, 52)

However, those who, like "the common people," have neither the financial means nor a pronounced interest in educating their young are dependent on the active involvement of society as a whole. Young members of the poor have few opportunities to further their education according to Smith's observations because they face considerable difficulties.

> They have little time to spare for education. Their parents can scarce afford to maintain them even in infancy. As soon as they are able to work they must apply to some trade by which they can earn their subsistence. That trade, too, is generally so simple and uniform as to give little exercise to the understanding, while, at the same time, their labour is both so constant and so severe, that it leaves them little leisure and less inclination to apply to, or even to think of, anything else. (V.i.f, 53)

In his remarks at the beginning of *The Wealth of Nations* on the division of labour, Smith points to the detrimental effects of monotonous employment. However, if the daily working conditions are such that they hinder rather than promote interest-driven learning after work then, according to Smith the tilting point to counter-productivity has been reached. People who are fully occupied by their work from morning till night while doing simple and strenuous physical work often experience mental inertia for want of intellectual activity. In Smith's view

> a man without the proper use of the intellectual faculties of a man […] seems to be mutilated and deformed in a still more essential part of the character of human nature. (V.i.f, 61)

To overcome this intellectual deformation requires a framework of improved conditions that enable, indeed encourage, further education and appropriate action is required from both the public and the government.

A closer look at Smith's view of religion and the role and function of the Church may help understand certain aspects of his concept of human nature. The famous image of the invisible hand for instance is sometimes seen as a religious metaphor. Smith's friendship with David Hume must also be evaluated, for Hume was reviled as an atheist and had great problems with institutionalized Christianity. The Church considered Hume's teachings questionable and massively lobbied against his appointment as professor. Not least Smith's obituary of David Hume in which he defends his friend exposed him to sharp criticism from Church circles.

The Wealth of Nations explores import role the Church plays in society and how the clergy presents itself. Book Five shows that Smith values the role of a moderate, non-partisan Church and that he sees both practised religion and the Church as indispensable prerequisites for a functioning society. Smith defines the role of the Church as primarily stabilising and supportive of society.

The Church plays an important social role by opposing discontent and laziness, but also superstition, social unrest and fanaticism. In Smith's eyes religion lies at the heart of the peaceful organisation of human coexistence and the Church plays a fundamental role in this context. Society is supposed to receive moral support from the Church as a stabilizing factor and competition between fragmented religious factions has negative consequences for the social equilibrium. In such a case, the state must intervene:

> There are two very easy and effectual remedies, however, by whose joint operation the state might, without violence, correct whatever was unsocial or disagreeably rigorous in the morals of all the little sects into which the country was divided.
>
> The first of those remedies is the study of science and philosophy, which the state might render almost universal among all people of middling or more than middling rank and fortune […]. (V.i.g, 13–14)

It is not surprising that Smith as a philosopher refers to the educational ideal of studying philosophy, an intellectual remedy propagated since antiquity. At the same time Smith is deeply immersed in the thinking of the Enlightenment and feels that knowledge of the natural sciences is an ideal corrective to antisocial behaviour. With sufficient education the principles of ethics and the individual categories of moral behaviour become clear to people through careful and intelligent observation in combination with critical reflection.

> The second of those remedies is the frequency and gaiety of public diversions. The state, by encouraging, that is by giving entire liberty to all those who for their own interest would attempt without scandal or indecency, to amuse and divert the people by painting, poetry, music, dancing; by all sorts of dramatic representations and exhibitions, would easily dissipate, in the greater part of them, that melancholy and gloomy humour which is almost always the nurse of popular superstition and enthusiasm. Public diversions have always been the objects of dread and hatred to all the fanatical promoters of those popular frenzies. (V.i.g, 15)

Just as the market reacts to changes as if governed by an invisible hand, Smith sees the same mechanisms at work in other areas of society. He does not call for Roman-style bread and games, simple amusement for the people that serve as outlets for pent-up aggression and frustration. Smith propagates an educational ideal of countering superstition with education in the spirit of *prodesse et delectare*, to teach and to delight according to the Roman author Horace. In this way, he sees the stability of society guaranteed by a liberal cultural policy which, crucially, is open to all members of a society.

Smith is not a religious sceptic as his writings show, from the "Essays on Philosophical Subjects" to *The Theory of Moral Sentiments* and finally *The Wealth of Nations*. He does not have to publicly declare his faith and *The Wealth of Nations* is not a revelation of personal values and views, but there is no question that Smith sees the importance of religion. While his friend David Hume was plagued by scepticism and religious doubt, Smith rested in the unshakeable certainty that there is a God. He sees from a moral philosophical position the central social role of religion and the Church. With such a view he joins the general secular movement that increasingly shaped eighteenth-century ethics. The moral autonomy of the individual is a decisive criterion for an understanding of the self that increasingly moved away from orthodox religious beliefs. Thus, for Smith, morality exists independently of religion; he thus places himself in the tradition of the Scottish empiricists and the Scottish concept of natural law.

Nevertheless, the Church has an important function in society which manifests itself especially through its representatives. But they too are human beings with human weaknesses. And here Smith sees the need for an explanation when he states that the reputation, and thus the effect of the Church, is decisively determined by the appearance of the clergy in public.

> A man of a large revenue, whatever may be his profession, thinks he ought to live like other men of large revenues, and to spend a great part of his time in festivity, in vanity, and in dissipation. But in a clergyman this train of life not only consumes the time which ought to be employed in the duties of his function, but in the eyes of the common people destroys almost entirely that sanctity of character which can alone enable him to perform those duties with proper weight and authority. (V.i.g, 42)

At the same time, Smith shows which of the many rival religious communities make a favourable impression on the public and play an influential role in society. He criticises the disdainful and presumptuous arrogance "which we so often meet with in the proud dignitaries of opulent and well-endowed churches." Here the Church loses influence because the clergy publicly display the same weaknesses, the "contemptuous and arrogant airs" as vain politicians. Smith's analysis of the Church's social influence is strongly oriented towards the role model that the clergy play in their community. In order to remain relevant and thus influential a display of humility and an authentic interest in the people is an integral part of successful work done by the Church. Because of this

> the Presbyterian clergy, accordingly, have more influence over the minds of the common people than perhaps the clergy of any other established church. It is accordingly in

> Presbyterian countries only that we ever find the common people converted, without persecution, completely, and almost to a man, to the established church. (V.i.g, 38)

The state and the government need money—and taxation plays an all-important role in this context. Apart from the possibility of the state itself receiving income from interest on the loan of money and being able to draw from capital gains, taxes are the state's main source of income. Smith analyses how, on the one hand, the three different sources of income are generated through taxes on rent, capital gains and wages. On the other hand, he asks whether there are not also possibilities of taxation independent of income. Regardless of the type of tax Smith develops four basic rules for taxation.

> I. The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state.
>
> II. The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person.
>
> III. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land or of houses, payable at the same term at which such rents are usually paid, is levied at the time when it is most likely to be convenient for the contributor to pay; or, when he is most likely to have wherewithal to pay.
>
> IV. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state. A tax may either take out or keep out of the pockets of the people a great deal more than it brings into the public treasury, in the four following ways. First, the levying of it may require a great number of officers, whose salaries may eat up the greater part of the produce of the tax, and whose perquisites may impose another additional tax upon the people. Secondly, it may obstruct the industry the people, and discourage them from applying to certain branches of business which might give maintenance and unemployment to great multitudes. While it obliges the people to pay, it may thus diminish, or perhaps destroy, some of the funds which might enable them more easily to do so. Thirdly, by the forfeitures and other penalties which those unfortunate individuals incur who attempt unsuccessfully to evade the tax, it may frequently ruin them, and thereby put an end to the benefit which the community might have received from the employment of their capitals. An injudicious tax offers a great temptation to smuggling. […] Fourthly, by subjecting the people to the frequent visits and the odious examination of the tax-gatherers, it may expose them to much unnecessary trouble, vexation, and oppression; and though vexation is not, strictly speaking, expense, it is certainly equivalent to the expense at which every man would be willing to redeem himself from it. (V.ii.b, 4–6)

In order for taxes to be fair and efficient they must be based on an assessment of the financial ability of the taxpayers, they must be transparent and comprehensible for everyone. Taxes must be unproblematic to collect with low costs of collection and they must be convenient for the taxpayer to pay. At the same time, Smith sees that taxpayers must not be unduly burdened, for otherwise "taxes are frequently so much more burdensome to the people than they are beneficial to the sovereign."

In *The Wealth of Nations* Smith explains in great detail how a fair distribution of tax revenue should be made among the various occupational groups so that the greatest possible social justice is maintained. To this end he examines in detail the

advantages and disadvantages of taxes on the three types of income—rent, profits and wages—at different stages of historical development and in different countries. Taxes that individuals have to pay regardless of their income, capitation or poll taxes, are in Smith's opinion rather unfair but were widespread at the time.

> Capitation taxes are levied at little expense, and, where they are rigorously exacted, afford a very sure revenue to the state. It is upon this account that in countries where the ease, comfort, and security of the inferior ranks of people are little attended to, capitation taxes are very common. (V.ii.j, 9)

Consumption taxes, on the other hand, can be designed to be proportional to people's income. In this way, they more fairly reflect the actual availability of income and burden all members of society according to their economic circumstances. The principle of social justice expressed in this model of taxation is characteristic of Smith's liberal views. Therefore, he returns to expenses for luxury goods as an indication of prosperity and shows that a certain type of consumption tax does take social criteria into account.

> It must always be remembered, however, that it is the luxurious and not the necessary expense of the inferior ranks of people that ought ever to be taxed. (V.ii.k, 44)

Smith is concerned both with income-based taxation and with the tax that must be paid by everyone regardless of income. He argues for a just system that provides the state with the necessary revenue without placing an undue burden on the individual. Smith sees taxation as necessary for social order and a well-governed society for only taxes can maintain a functioning state. For this reason, it is important that those who benefit from the state's services do in fact pay for them.

> Those local or provincial expenses of which the benefit is local or provincial (what is laid out, for example, upon the police of a particular town or district) ought to be defrayed by a local or provincial revenue, and ought to be no burden upon the general revenue of the society. It is unjust that the whole society should contribute towards an expense of which the benefit is confined to a part of the society. (V.i.i, 3)

Questions

What is Adam Smith's view of government interference in economic activities, and what exceptions does he allow?

What role does the metaphor of the body play in Adam Smith's economic theory?

Discuss Adam Smith's stance on the role of the state in economic affairs. What are the specific tasks he believes the state should undertake?

What risks does Adam Smith identify in continuing protectionism after the initial need for it has passed?

How does Adam Smith view the role of paper money?

Discuss Adam Smith's principles of taxation as outlined in "*The Wealth of Nations*." How does he propose taxes should be structured to achieve fairness and efficiency?

How does Adam Smith view the relationship between religion and social stability in "*The Wealth of Nations*"?

In which way does education or professional training impact the wealth of a nation, according to Adam Smith?

How does Adam Smith view the role of education in society, and what specific reforms does he suggest regarding educational institutions?

How does Adam Smith's philosophy of education and moral development intersect with his views on religion, and how does he see knowledge and critical reflection as a remedy to superstition and antisocial behaviour?

Conclusion

The Wealth of Nations is an erudite, readable and convincing treatise on the mechanisms and principles of general prosperity, and Smith's thinking is most commonly associated with three key terms: the invisible hand, the division of labour, and economic liberalism. These concepts are central to his legacy as an economist, and his influence on the development of classical economics remains profound. However, as is often the case with prolific writers, the full extent of Smith's work cannot be reduced to these economic concepts. *The Wealth of Nations* is his most famous work and it still stands out as a comprehensive exploration of human nature, social dynamics, and moral philosophy. As such, it is not merely an economic treatise, but a philosophical and political one as well. In its combination of economic analysis and moral reflection, *The Wealth of Nations* remains a most influential work in intellectual history, still resonating with readers today, over two centuries after its publication.

Before becoming a celebrated economist, Adam Smith was a highly respected moral philosopher. His early work, *The Theory of Moral Sentiments*, explores the foundations of human ethics, focusing on the ways in which individuals' actions and behaviours are shaped by sympathy, self-interest, and social norms. These reflections on human nature and morality provide the intellectual background for his economic ideas. In *The Wealth of Nations*, Smith draws upon these earlier insights to address questions of economic development, the nature of wealth, and the roles of individuals and societies in creating and distributing material prosperity.

At the heart of Smith's analysis is a close examination of human desires and motivations. In the eighteenth century, the world was in the midst of profound social and economic change, with the rise of market economies, the expansion of trade, the professionalisation of agriculture, the rise of the meritocracy and the growth of industrialization. Smith's work seeks to understand how these changes affect the nature of human interaction and the functioning of society as a whole. Central to this inquiry is the tension between the interests of the individual and those of the community, from the family to society at large. Smith recognizes that individuals

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_13

acting out of self-interest, when operating within a system of exchange, could inadvertently contribute to the public good. His concept of the "invisible hand," which suggests that individuals pursuing their own economic interests can lead to beneficial outcomes for society, remains one of the most famous and enduring metaphors in economic thought.

Although *The Wealth of Nations* is often regarded as one the key texts of classical economics, it is equally a work of political philosophy. Smith's critique of contemporary economic systems, particularly mercantilism, provides insights into the political economy of the eighteenth century. Mercantilism, which dominated European economic policy at the time, focused on maximizing a nation's wealth through protectionist policies, colonial expansion, and the accumulation of precious metals. Smith rejects this view, arguing that wealth should not solely be understood in terms of gold and silver, but rather in terms of a nation's productive capacity. For Smith, the true wealth of a nation lies in its resources and in the skills, labour, and capabilities of its people.

Moreover, Smith's analysis of colonialism is a critical element of his broader political philosophy. He recognizes the inherent exploitation and injustice of colonial systems, where wealth is extracted from colonies at the expense of their populations. His scepticism of colonialism and the mercantile system, which relies on monopolistic practices, reflects his broader belief in the importance of free competition in an open market and the dangers of concentrated power, whether in government or in business.

The economic ideas Smith presents are not merely theoretical abstractions but deeply intertwined with his moral and political views. He argues for a system in which the government plays a minimal role, intervening only to enforce laws, protect property, and provide for public goods and services that the market cannot supply. In this way, Smith laid the groundwork for what would later be known as economic liberalism, which advocates for limited government interference in the economy and the primacy of individual freedoms.

Despite the complexity and scope of *The Wealth of Nations*, the book remains surprisingly accessible and engaging. While its length may seem daunting, Smith's clear and concise prose ensures that readers can follow his arguments without being overwhelmed. He does not shy away from revisiting key points and offering detailed explanations, which can sometimes lead to repetition, but this redundancy serves a practical purpose—ensuring that even casual readers grasp the full significance of his arguments and the systematic approach to the world he sees around him. In his early essay on "The History of Astronomy"he observes:

> It is evident that the mind takes pleasure in observing the resemblances that are discoverable betwixt different objects. It is by means of such observations that it endeavours to arrange and methodise all its ideas, and to reduce them into proper classes and assortments. Where it can observe but one single quality, that is common to a great variety of otherwise widely different objects, that single circumstance will be sufficient for it to connect them all together, to reduce them to one common class, and to call them by one general name. (II, 2).

"The mind takes pleasure in observing" Smith's ability to balance intellectual rigor with readability, and this is one of the reasons why *The Wealth of Nations* has

endured for so long. His writing is characterized by intellectual precision, and his insights are often conveyed with a dry humour and a subtle irony that makes the text both engaging and thought-provoking. His ability to blend moral indignation with keen observational wit lends the book an appeal rarely found in texts by his contemporaries.

The most remarkable aspect of *The Wealth of Nations* is its continued relevance, since it touches upon fundamental human qualities and propensities. Despite being written in the eighteenth century, the issues Smith addresses—poverty, the dangers of monopolies, the relationship between individual and collective interests, the distribution of wealth—are still central to contemporary debates in economics and politics. Moreover, Smith's work represents a seamless integration of philosophy, ethics, and economics. His ideas about human nature and social cooperation continue to inform discussions about market dynamics, the role of government, and the ethics of capitalism.

One of the reasons for the enduring popularity of *The Wealth of Nations* is its ability to resonate with both scholars and general readers. The book is not merely a theoretical exercise, but a comprehensive reflection on how societies function and how human beings interact in the pursuit of self-interest, security, and social recognition. In this sense, Smith's work is not just a historical artifact but a living document that continues to influence contemporary economic and, one should hope, political thought.

Through his examination of human nature, social dynamics, and economic principles, Adam Smith provides insights that shaped the course of economic and political thought. The enduring influence of *The Wealth of Nations lies* in its ability to weave together moral philosophy, economic analysis, and political critique into a coherent and compelling narrative. It seems that at the heart of the complexities of the modern world some fundamental assumptions about the workings of markets, the role of government, and the nature of human society can still be traced to Smith's observations in *The Wealth of Nations*. His analysis shows that human nature governs social and economic interactions and that every person, often without intending to do so, promotes general prosperity. Smith sees the division of labour as an integral part of progress and the market, governed by an invisible hand, makes possible the exchange of goods and services. For Smith, natural freedom of every person in society and the free play of economic forces guarantee the prosperity of a nation. This is possible only because every person in society supplies others

> […] abundantly with what they have occasion for, and they accommodate him as amply with what he has occasion for, and a general plenty diffuses itself through all the different ranks of the society. (I.i, 10)

.

Background and Sources

Abstract The following chapter groups together excerpts from major economic, literary, and philosophical sources that provide a background to "*The Wealth of Nations*." Smith was familiar with all of these texts, and they provide the context for a better understanding of his work, since some ideas—on human nature, benevolence, self-interest, but also on a theory of prices or the role of agriculture—are later taken up in "*The Wealth of Nations*." Occasionally Smith's work echoes those major texts to the point of near-verbatim quotations, but since his contemporary readers knew most of his sources well Smith positions himself as the more systematic and often as the more precise thinker.

The excerpts from these five major works range from the Earl of Shaftesbury's early "*Characteristics*" from the early eighteenth century to Steuart's "*An Inquiry into the Principles of Political Economy*" from 1767. They include philosophical texts by Shaftesbury and Hume, Defoe's economic treatise based on his empirical observations made while travelling through Britain, and Steuart's economic treatise that is often seen as a precursor to Smith's "*The Wealth of Nations*." Seen together, these excerpts invite the reader to position Smith's seminal work in the context of eighteenth-century discourse on philosophy, economics, and literature.

Anthony Ashley Cooper, Earl of Shaftesbury

Anthony Ashley Cooper, the third Earl of Shaftesbury (1671–1713), significantly influenced eighteenth-century moral philosophy, and his work *Characteristicks of Men, Manners, Opinions, Times* (1711) played a crucial role in shaping Smith's thinking. Shaftesbury's emphasis on moral sentiments, virtue, and the social nature of human beings very much appealed to Smith.

Shaftesbury's book explores the nature of virtue and the role of moral sentiments in human life. He posits that humans are inherently social beings, endowed with a natural sense of benevolence and moral intuition. Shaftesbury argues that true virtue stems from acting in accordance with these natural sentiments and contributing to the well-being of society. This view stands in contrast to the more cynical

© The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9_14

perspectives of later thinkers like Bernard Mandeville, who emphasised self-interest and vice as drivers of economic prosperity.

Shaftesbury's thoughts on those human characteristics that make society possible carry over into *The Wealth of Nations*, where Smith presents a nuanced view of self-interest and economic behaviour. While Smith acknowledges the power of self-interest in driving economic activity, he does not portray it as inherently virtuous or vicious. Instead, he situates self-interest within a broader moral and social framework, where market interactions are tempered by ethical considerations and social norms. This balanced view reflects Shaftesbury's influence, emphasizing the compatibility of individual pursuits with social welfare. Moreover, his emphasis on the importance of social institutions in nurturing virtue influenced Smith's understanding of the role of institutions in economic life. Shaftesbury argued that a well-ordered society that promotes moral development and social cooperation, is essential for fostering virtue. Smith extends this idea to the economic realm, asserting that property rights, justice, and education are crucial for creating an environment where markets can function effectively and ethically.

In *The Wealth of Nations*, Smith also echoes Shaftesbury's belief in the natural harmony of interests within a well-ordered society. This idea resonates with Shaftesbury's vision of a harmonious social order where individual actions, guided by moral sentiments, align with the common good. Shaftesbury's influence helped Smith articulate a vision of economic life where self-interest and moral sentiments coexist, contributing to the well-being of society as a whole.

Characteristicks of Men, Manners, Opinions, Times (1718)

Volume II, Part II, Conclusion

Thus have we endeavour'd to prove what was propos'd in the beginning. And since in the common and known Sense of *Vice* and *Illness*, no-one can be vitious or ill, except either,

1. By the Deficiency or Weakness of *natural Affections*;

Or, 2. by the Violence of *the selfish*;

Or, 3. by such as are plainly *unnatural*:

It must follow, that if each of these are pernicious and destructive to the Creature, insomuch that his compleatest State of Misery is made from hence; TO BE WICKED OR VITIOUS, IS TO BE MISERABLE AND UNHAPPY.

And since every vitious Action must in proportion, more or less, help towards this Mischief, and *Self-ill*; it must follow, THAT EVERY VITIOUS ACTION MUST BE SELF-INJURIOUS AND ILL.

On the other side; *the Happiness* and *Good* of VIRTUE has been prov'd from the contrary Effect of other Affections, such as are according to *Nature*, and the OEconomy of the Species or Kind. We have cast up all those Particulars, from whence (as by way of Addition and Subtraction) the main *Sum* or general Account of Happiness, is either augmented or diminish'd. And if there be no Article exceptionable in this Scheme of *Moral Arithmetick*; the Subject treated may be said to have an Evidence as great as that which is found in Numbers, or Mathematicks. For

let us carry *Scepticism* ever so far, let us doubt, if we can, of every thing about us; we cannot doubt of what passes *within our-selves*. Our Passions and Affections are known to us. They are certain, whatever the *Objects* may be, on which they are employ'd. Nor is it of any concern to our Argument, how these exterior Objects stand; whether they are Realitys, or mere Illusions; whether we wake or dream. For *ill Dreams* will be equally disturbing. And a good *Dream*, if Life be nothing else, will be easily and happily pass'd. In this Dream of Life, therefore, our Demonstrations have the same force; our *Balance* and *OEconomy* hold good, and our Obligation to VIRTUE is in every respect the same.

Upon the whole: There is not, I presume, the least degree of Certainty wanting in what has been said concerning the Preferableness of the *mental Pleasures to the sensual*; and even *of the sensual, accompany'd with good Affection, and under a temperate and right use*, to those which are *no ways restrain'd, nor supported by any thing social or affectionate*.

Nor is there less Evidence in what has been said, of *the united Structure and Fabrick of the Mind*, and of those Passions which constitute the *Temper*, or Soul; and on which its Happiness or Misery so immediately depend. It has been shewn, That in *this Constitution*, the impairing of any one Part must instantly tend to the disorder and ruin of other Parts, and of the Whole itself; thro' the necessary *Connexion* and *Balance* of the Affections: That those very Passions thro' which Men are vitious, are of themselves a Torment and Disease; and that whatsoever is done which is knowingly *ill*, must be of *ill Consciousness*; and in proportion, as the Act is ill, must impair and corrupt social Enjoyment, and destroy both *the Capacity of kind Affection, and the Consciousness of meriting any such*. So that neither can we *participate* thus in Joy or Happiness with others, or receive Satisfaction *from the mutual Kindness or imagin'd Love of others*: on which, however, the greatest of all our Pleasures are founded.

If this be the Case of moral Delinquency; and if the State which is consequent to this Defection from Nature, be of all other the most horrid, oppressive, and miserable; 'twill appear, "*That to yield or consent to any thing ill or immoral, is a Breach of Interest, and leads to the greatest Ills*": and, "That on the other side, *Every thing which is an Improvement of Virtue, or an Establishment of right Affection and Integrity, is an Advancement of Interest, and leads to the greatest and most solid Happiness and Enjoyment.*"

Thus the Wisdom of what rules, and is FIRST and CHIEF *in Nature*, has made it to be according to the *private Interest* and *Good* of every-one, to work towards the *general Good;* which if a Creature ceases to promote, he is actually so far wanting to himself, and ceases to promote his own Happiness and Welfare. He is, on this account, directly his own Enemy: Nor can he any otherwise be good or useful to himself, than as he continues good to Society, and to that *Whole* of which he is himself *a Part*. So that VIRTUE, which of all Excellencys and Beautys is the chief, and most amiable; that which is the Prop and Ornament of human Affairs; which upholds Communitys, maintains Union, Friendship, and Correspondence amongst Men; *that* by which Countrys, as well as private Familys, flourish and are happy; and for want of which, every-thing comely, conspicuous, great and worthy, must perish, and

go to ruin; *that single Quality*, thus beneficial to all Society, and to Mankind *in general*, is found equally a Happiness and Good to each Creature *in particular*; and is *that* by which alone Man can be happy, and without which he must be miserable.

And, thus, VIRTUE is the *Good*, and VICE the *Ill* of every-one.

Bernard Mandeville

The physician Bernard Mandeville (1670–1733) was born in Rotterdam in the Netherlands and moved to England to practice medicine. He was highly regarded as a brilliant conversationalist by London society, and in his literary texts he commented on life in Britain in the eighteenth century. In 1714 he published his poem "The Fable of the Bees: or, Private Vices, Publick Benefits," and it presents a provocative thesis that individual vices can result in public benefits. This work had a significant, albeit complex, influence on Adam Smith, particularly in the development of his thoughts on luxury and benevolence. Mandeville's exploration of the relationship between self-interest, egoism, and social good provided a crucial counterpoint for Smith as he formulated his ideas on the interplay between individual motivations and economic outcomes.

Mandeville's central argument in "The Fable of the Bees"is encapsulated in the notion that private vices, such as greed and luxury, can generate public benefits by driving economic activity and prosperity. He illustrated this through the metaphor of a beehive, where the bees' antisocial pursuit of luxury and self-interest inadvertently leads to a thriving, wealthy society. Mandeville contended that moral vices like selfishness and avarice, though traditionally condemned, play an essential role in stimulating industry, trade, and innovation, albeit with negative consequences for the majority of the population.

While Smith acknowledged the role of self-interest as a powerful driver of economic activity, he diverged from Mandeville's more cynical view of human nature. In *The Wealth of Nations*, Smith posits that individuals, by pursuing their own self-interest, contribute to the overall economic welfare through mechanisms such as competition and the division of labour. This idea is famously encapsulated in his concept of the "invisible hand," which suggests that the pursuit of personal gain can lead to beneficial social outcomes. In contrast to Mandeville, Smith maintains that while self-interest is a crucial economic motivator, it operates within a moral and social framework that guides behaviour towards beneficial outcomes. Mandeville's provocative assertion that private vices could result in public benefits lacked a rigorous analytical foundation. Smith provides this foundation by explaining how competitive markets channel self-interest into socially desirable results. He details how the division of labour enhances productivity, how market competition regulates prices and quality, and how trade and specialization lead to economic growth. These mechanisms illustrate how self-interested behaviour, when properly structured by market forces, contributes to the public good and is not necessarily harmful to others.

Additionally, Smith was critical of Mandeville's endorsement of vices and his suggestion that moral degradation is necessary for economic prosperity. Smith argues for a more virtuous approach to economic life, where prudent self-interest is harmonized with ethical behaviour. In contrast to Mandeville's provocative poem Smith points out that society functions best when industriousness and frugality rather than luxury and excess are encouraged.

The Fable of the Bees: Or, private vices, publick benefits" (1714)

A Spacious Hive well stockt with Bees,
That liv'd in Luxury and Ease;
And yet as fam'd for Laws and Arms,
As yielding large and early Swarms;
Was counted the great Nursery
Of Sciences and Industry.
[…]
Vast Numbers throng'd the fruitful Hive;
Yet those vast Numbers made 'em thrive;
Millions endeavouring to supply
Each other's Lust and Vanity;
While other Millions were employ'd,
To see their Handy-works destroy'd;
They furnish'd half the Universe;
Yet had more Work than Labourers.
Some with vast Stocks, and little Pains,
Jump'd into Business of great Gains;
And some were damn'd to Sythes and Spades,
And all those hard laborious Trades;
Where willing Wretches daily sweat,
And wear out Strength and Limbs to eat:
While others follow'd Mysteries,
To which few Folks bind 'Prentices;
That want no Stock, but that of Brass,
And may set up without a Cross;
As Sharpers, Parasites, Pimps, Players,
Pick-pockets, Coiners, Quacks, South-Sayers,
And all those, that in Enmity,
With downright Working, cunningly
Convert to their own Use the Labour
Of their good-natur'd heedless Neighbour.
These were call'd Knaves, but, bar the Name,
The grave Industrious were the same:
All Trades and Places knew some Cheat,
No Calling was without Deceit.
[…]
Thus every Part was full of Vice,
Yet the whole Mass a Paradise;
Flatter'd in Peace, and fear'd in Wars
They were th' Esteem of Foreigners,
And lavish of their Wealth and Lives,
The Balance of all other Hives.
Such were the Blessings of that State;

Their Crimes conspired to make them Great:
And Virtue, who from Politicks
Had learn'd a Thousand Cunning Tricks,
Was, by their happy Influence,
Made Friends with Vice: And ever since,
The Worst of all the Multitude
Did something for the Common Good.
[…]
The Root of evil, Avarice,
That damn'd ill-natur'd baneful Vice,
Was Slave to Prodigality,
That noble Sin; whilst Luxury
Employ'd a Million of the Poor,
And odious Pride a Million more:
Envy it self, and Vanity,
Were Ministers of Industry;
Their darling Folly, Fickleness,
In Diet, Furniture and Dress,
That strange ridic'lous Vice, was made
The very Wheel that turn'd the Trade.
Their Laws and Cloaths were equally
Objects of Mutability;
[…]
Thus Vice nurs'd Ingenuity,
Which join'd with Time and Industry,
Had carry'd Life's Conveniencies,
It's real Pleasures, Comforts, Ease,
To such a Height, the very Poor
Liv'd better than the Rich before,
And nothing could be added more.
[…]
Now mind the glorious Hive, and see,
How Honesty and Trade agree.
The Shew is gone, it thins apace;
And looks with quite another Face.
For 'twas not only that They went,
By whom vast Sums were Yearly spent;
But Multitudes that liv'd on them,
Were daily forc'd to do the same.
In vain to other Trades they'd fly;
All were o'er-stock'd accordingly.
[…]
As Pride and Luxury decrease,
So by degrees they leave the Seas.
Not Merchants now, but Companies.
Remove whole Manufactories.
All Arts and Crafts neglected lie;
Content, the Bane of Industry,
Makes 'em admire their homely Store,
And neither seek nor covet more.
[…]
THE MORAL.
Then leave Complaints: Fools only strive

To make a Great an Honest Hive
T' enjoy the World's Conveniencies,
Be fam'd in War, yet live in Ease,
Without great Vices, is a vain
Eutopia seated in the Brain.
Fraud, Luxury and Pride must live,
While we the Benefits receive:
[…]
So Vice is beneficial found,
When it's by Justice lopt and bound;
Nay, where the People would be great,
As necessary to the State,
As Hunger is to make 'em eat.
Bare Virtue can't make Nations live
In Splendor; they, that would revive
A Golden Age, must be as free,
For Acorns, as for Honesty.

Daniel Defoe

Daniel Defoe (1660–1731) is best known for his novels, in particular *Robinson Crusoe* and *Moll Flanders*. Defoe, however, also made significant contributions to economic thought, particularly with his work *A Plan of the English Commerce: Being a Compleat Prospect of the Trade of This Nation, As Well the Home Trade As the Foreign* published in 1728. This treatise on economic policy and trade provides insights into the commercial practices and economic ideas of the early eighteenth century. Defoe's observations of and ideas on trade, commerce, and the functioning of markets were widely read and thus contributed to the intellectual milieu in which Smith developed his seminal theories.

Defoe's *A Plan of the English Commerce* focuses on the importance of trade and industry in national prosperity. Defoe advocated for the expansion of commerce and industry as a means to strengthen the English economy, emphasizing the benefits of trade for economic growth and national wealth. He highlighted the significance of a robust merchant class and argued for policies that would support and enhance commercial activity. These ideas resonate with themes that Smith would later explore in *The Wealth of Nations*.

One of Defoe's key contributions was his understanding of the interplay between domestic industry and international trade. He recognized that the prosperity of a nation depended on its ability to produce goods efficiently and trade them profitably in international markets. This notion parallels Smith's argument that the wealth of nations is derived from the productivity of labour and the capacity for specialization and trade. Smith's famous concept of the division of labour reflects an extension of Defoe's insights into how specialized production and trade enhance economic efficiency and growth. Moreover, Defoe's pragmatic approach to economic policy, advocating for the support of industry and trade through practical measures, finds

echoes in Smith's work. Based on observations made during his extensive travels Defoe is aware of the importance of infrastructure and transportation in supporting commerce. He argues for the development of roads, ports, and other infrastructure to facilitate the movement of goods and reduce transaction costs. Smith points out that the development of roads, bridges, and canals was crucial for improving trade and integrating markets, thus enhancing the wealth of nations.

It is noteworthy to observe that Defoe's phrase "the butcher, baker and victualler" from the *A Plan of the English Commerce* is echoed in Smith's famous phrase of "the butcher, the brewer, or the baker" in *The Wealth of Nations*. But while Defoe's *A Plan of the English Commerce* probably did influence Smith, Defoe's observations of life and commerce in the early eighteenth century merely provide a context for Smith, since the text is less analytical than Smith's. Defoe's meticulous descriptions of trade, industry, and economic practice helped Smith to offer a more rigorous and theoretical exposition of economic principles in *The Wealth of Nations*.

A Plan of the English Commerce: Being a Compleat Prospect of the Trade of This Nation, As Well the Home Trade As the Foreign (1728)

Of Trade in General, Chap. I

Trade, like Religion, is what every Body talks of, but few understand: The very Term is dubious, and in its ordinary Acceptation, not sufficiently explain'd.

When 'tis particular to a Place, 'tis *Trade*; when general, 'tis *Commerce*; when we speak of it as the Effect of Nature, 'tis *Product* or Produce; when as the Effect of Labour, 'tis *Manufacture*: In its Management 'tis the same, for when we speak of it in the gross, 'tis *wholesale*; when of the particulars, 'tis *retale*; when we speak of Nations, 'tis called *Corresponding*; when of foreign import only, 'tis call'd *Banking, Negoce* and *Negotiating*; Hence, our Money-Goldsmiths were formerly called *Bankers*, and our great national Treasury of Commerce is at this Day called the *Bank*.

[…]

Are we a rich, a populous, a powerful nation, and in some respects the greatest in all those particulars in the world, and do we not boast of being so? 'Tis evident it was all deriv'd from trade. Our merchants are princes, greater and richer, and more powerful than some sovereign princes; and in a word, as is said of Tyre, we have made the kings of the earth rich with our merchandise, that is, with our trade.

If usefulness gives an addition to the character, either of men or things, as without doubt it does; trading-men will have the preference in almost all the disputes you can bring: There is not a nation in the known world, but have tasted the benefit, and owe their prosperity to the useful improvements of commerce: Even the self-vain gentry, that would decry trade as a universal mechanism, are they not every where depending upon it for their most necessary supplies? If they do not all sell, they are all forc'd to buy, and so are a kind of traders them-selves, at least they recognize the usefulness of commerce, as what they are not able to live comfortably without.

Nay, in many parts of Britain, they are really traders, both buyers and sellers; for example, where the landlords are obliged to take their rents in kind, as the clergy do

their tithes; here they are (in a word) general traders; they sell their barley to the malt-makers, their wheat to the millers and bakers, their oates to the corn-factors, their sheep and bullocks are sold at the markets to the butchers, or at fairs to the graziers; they are sheep-shearers, and sell their wool to the stapler or clothier; and when they kill a bullock, or a calf, or a sheep, for their family-use, they are beholding to the felmonger, and the tanner, to buy the raw hides and skins; when they sell their timber, they are oblig'd to turn mechanicks, and sell the bark to the tanners, the timber to the ship-wright and the carpenters, the brushwood and bavins to the baker and the brick-maker.

In a word, useful trade supports the gentleman; and without these mechanicks he could not dispose the produce of his estate, or make any rent of his land; and rather than not dispose of it, such is his necessity, that we see he will stoop to buy and sell for himself, and trade and deal like a meer mechanick.

But this is not all, if they would look a little nearer, they would see themselves not by practice only degenerated into trading men, but even their fortunes, nay, their very blood mingled with the mechanicks, as they call them; the necessity of their circumstances frequently reconciles the best of the nobility to these mixtures; and then the same necessity opens their eyes to the absurdity of the distinctions which they had been so wedded to before.

It is with the utmost disgrace to their understanding, that those people would distinguish themselves in the manner they do, when they may certainly see every day prosperous circumstances advance those mechanicks, as they will have them called, into the arms, and into the rank of the gentry; and declining fortunes reduce the best families to a level with the mechanick.

The rising tradesman swells into the gentry, and the declining gentry sink into trade. A merchant, or perbaps a man of a meaner employ thrives by his honest industry, frugality, and a long series of diligent application to business, and being grown immensely rich, he marries his daughters to gentlemen of the first quality, perhaps a coronet; then he leaves the bulk of his estate to his heir, and he gets into the rank of the peerage; does the next age make any scruple of their blood, being thus mix'd with the antient race? Do we not just now see two dukes descended by the female side, from the late Sir Josiah Child, and the immediate heir a peer of Ireland? Many examples of the like kind might be given.

On the other hand, the declining gentry, in the ebb of their fortunes, frequently push their sons into trade, and they again, by their application, often restore the fortunes of their families: Thus tradesmen become gentlemen, by gentlemen becoming tradesmen. I could give examples of this too, but they are too recent for our naming.

They that learn thus to despise trading people as such, must either be intirely ignorant of the world, or perfectly uncapable of the just impressions of these things; they must forget, sure, that the gentry are always willing to submit to the raising their families, by what they call city fortunes; and how useful trade has always been, and still is in the world on that account; while others who call themselves gentlemen, by way of distinction, became unworthy by the scandal of their morals, to match with the meanest citizen, if she be a woman of modesty and virtue.

But to go on in generals, which is proper to the head I am talking of; trade is the universal fund of wealth throughout the world; the gold of Africa and Brazil, the silver of Mexico and Peru had but for trade remained undisturbed in the mines, and in the sands of the rivers of Guinea and Chili: The diamonds of Golconda, and of Borneo had been glittering in the dirt, and remain'd unpolish'd to this day, if diligence had not found them out; if navigation had not assisted the discovery, and if trade had not spread and dispers'd them over the whole globe.

Even Solomon had wanted gold to adorn the Temple, unless be had been supply'd by miracles; if he had not turn'd merchant-adventurer, and sent his fleets to fetch it from the East Indies, that is to say, from Achin, on the Island of Sumatra, which is supposed to be the Ophir which his factors procur'd it at.

So effectually has trade rais'd the wealth of the world, that 'tis remarkable, and worth the most curious observation, that throughout the known world, nations, and kingdoms, and governments are rich or poor, as they have, or have not, a share of the whole commerce of the world, or more or less, some concern in it.

[…]

I once saw a calculation of trade for the planting a new town in the south parts of England, where, for the encouragement of people to come and settle, the lords of the manors (for the place lay in three manors,) agreed to give a certain quantity of lands to fifty farmers, who would undertake to bring each two hundred pound stock with them, and settle there.

To every such farmer, they allotted two hundred acres of good land, rent-free for twenty years; and if the farmer brought three hundred pound stock, he had three hundred acres; besides the land, the said lords agreed to find timber, and all other materials for the building, to every farmer a house, and out of their own pockets to build to each house a barn and stables; and thus, with other encouragements, fifty families of substantial farmers were brought to live in a kind of circle within themselves, with every one a good farm to manage, and sufficient quantity of land rent-free; the land was good in it self, tho' never cultivated before, so that being clear'd and inclos'd, and gradually plow'd or improv'd, it soon return'd them a profitable increase.

The lard was so laid out in a large circle, that all the farm-houses being built at the extremities of the respective farms, towards the center, left a handsome large square piece of land which the lords reserv'd for the building a town; and as the farm-houses were so regularly plac'd, as to front all inwards, they left ten spaces like streets before their doors, of which five of the farm-houses, with their out-houses, made one side, and the other remained to build into a street as occasion should present.

At the same time they publish'd, that whoever would come and build on that vacant ground, should have a certain proportion'd measure of land allow'd him, according to the size of the house he would build, should have timber given him gratis, out of the woods belonging to the estate, sufficient for his building; and to every house, land also added for a garden and orchard, no rent to be paid for 10 years, and then a moderate rent for 20 years more; and then a certain rent (not at last immo-derate) for the time to come.

When the farmers were settled, for there is the substance and reason of the thing, and in this it is exactly to my purpose; immediately comes a butcher, and he runs up a little shed for the present, till he could build a house, and sets up a shop, to kill and sell meat for the farmers.

[…]

Nor could one butcher be sufficient to furnish meat to fifty families, but they were oblig'd to send to neighbour-ing towns for provision, till the first butcher having encouragement, two or three more came afterwards, and set up also.

After the example of the butcher, in the next place came a baker, and he erects an oven to supply them with bread.

Fifty families of farmers must necessarily find work for a smith or farrier to shoe their horses, and at least two wheel-wrights to make and repair their carts, waggons, plows, harrows, &c. and these with the necessary iron-work for so much building, called in a couple of black-smiths, whereof one being a man of substance, made himself a kind of iron-monger, laying in a stock of all sorts of wrought iron and brass for building and furniture, which on such an occasion they could not be without.

This collection of tradesmen naturally requird a shoemaker or two to set up, who soon found trade enough to supply the growing numbers of people with shoes and boots; and likewise a good honest country cobler or two could not fail of employment to repair them; and (to add the other trades working in leather), they could not be without a collar-maker or two, for harness, pannels, saddles, and all the necessary things relating to a team.

Add to these a turner, an earthern-ware seller, a glover, a rope-maker, three or four barbers, (perhaps a midwife) and several such trades as the nature of things required.

But to go back to the building part, three master carpenters would be the least that could be employ'd in building houses, and these would require at first five or six pair of sawyers at least, with journeymen; that is to say, workmen; two or three bricklayers, with their servants and labourers, and perhaps hard by a brick and tile-maker.

To supply these, one of the carpenters, a man of sub-stance, builds himself a wind-mil, and another builds a second, and they both find work enough (as the town encreased) to keep them constantly employ'd.

The town going thus forward, and standing in the great post road, comes an honest victualler, and he sets up an ale-house; and soon after, he is follow'd by five or six more; as the first encreasing in stock, sees room for it, he enlarges his building, and makes his little ale-house out into a good inn, and a second follows him, and then a third, and in process of time, the number of public-houses encrease to eleven or twelve in all; whereof as above, three are very handsome inns, and perhaps sell wine as well as strong drink.

By this time the lords of the manors begin to think it proper to build their new tenants a church, for which they lay out a handsome piece of ground in the center of the town, and a large burying-ground added to it; and obtaining licence from the bishop, they consecrate the building; and being joint patrons, present in turn, getting

a law to erect it into a parish, and to ascertain the tithe and maintenance of the incumbent, as in like cases.

Hitherto nature acted it all, but this part indeed, the piety of the patrons supplies; our business is (in both) to observe the ordinary course of things. The concourse of tradesmen follow the concourse of people, as naturally as warmth attends the approach of the sun; the settlement of the farmers gives a summons to the tradesmen that supply them with necessaries, and lets them know, that there they may find business and employment: The necessity of meat and drink, brings the butcher, baker and victualler to settle with them, as naturally as sutlers follow an army.

But to proceed; fame spreads the news of a town newly erected, and a number of families brought together; a grocer goes to see if there is no room for him, and finding no supplies of his kind, he takes a piece of ground in one of the principal streets, and marks himself out a place for his house; but first, as before, runs up a booth or shed, stores it with goods, and opens a shop, and two or three chandler shops do the same in remoter parts, buying their goods perhaps of him.

An apothecary does the like next door to him, and a mercer next to him; then a haberdasher of hats, a draper and a milliner; and thus the town is inhabited and furnish'd by degrees with all sorts of necessary people and things; till after some time, the lords of the manors, to carry on the improvement, get a patent for a market once a week, and a fair perhaps twice a year, or oftner, as there is occasion.

In these advanc'd circumstances, other trades fall in; as first, more ale-houses; 2*d*, a common brewer; 3*d*, a cooper for casks of all sorts; a pewterer, two or three lawyers, (or attorneys, rather) for drawing writings, making bonds, bargains and agreements between man and man, and one of these in time gets himself made a justice of peace, and so there is an immediate magistrate among them.

In the mean time other trades fill up the streets; a malt-house, perhaps two or three are erected, that the inhabitants may brew their own beer if they please; a surgeon in case of disaster, for by this time the town begins to grow populous.

The good women also being diligent, and good housewives, they spin, and in consequence of that, there must be a linen weaver, and a woollen-weaver, a flax and hempdresser, and in a word, whatever depends upon their thrift.

Thus far the nature and consequence of things agree with what is advanced above: Thus towns and families, nay nations and countries are planted and peopled, and made flourishing and populous by their commerce.

[…]

In a word, it appears by innumerable examples, that trade is the life of the world's prosperity, and all the wealth that has been extraordinary, whether of nations or cities, has been raised by it.

The nature of the thing indeed implies it; as the industry of mankind is set on work, their hopes and views are rais'd, and their ambition fir'd: The view and prospect of gain inspires the world with the keenest vigor, puts new life into their souls; and when they see the success and prosperity of trading nations, it rouzes them up to the like application.

Let us view the differing face of the nations, (and of the people who inhabit them) where they have no trade; how miserable is the scene of life? The countries

look desolate, the people sad and dejected, poor and disconso-late, heavy and indolent; not for want of will to labour, but for want of something to labour profitably at; the rich are slothful, because they are rich and proud, the poor, because they are poor and despair; for it will ever be true.

That poverty makes sloth, and sloth makes poor.

We say of some nations, the people are lazy, but we should say only, they are poor; poverty is the fountain of all manner of idleness; they have in short nothing to do, no employment in which they can get their bread by their labour; their work gets no wages for want of trade, and their trade no increase for want of labour; diligence promotes trade, and trade encourages diligence; labour feeds trade, and trade feeds the labourer.

There is hardly that country to be nam'd in the world, where there is no room for improvement by industry and application; nay, we find an industrious people often thriving and wealthy, under the weighty discouragements of a barren soil, an inhospitable climate, a tempestuous sea, a remote situation, having yet something or other for trade to work unon.

David Hume

David Hume (1711–1776), a Scottish philosopher, was friends with Adam Smith. In his *An Enquiry Concerning the Principles of Morals* (first edition 1751, later expanded) Hume discusses human nature, ethics, and the foundations of moral judgments, providing a critical context for understanding Smith's economic theories in *The Wealth of Nations*. The intellectual relationship between Hume and Smith was profound, and Hume's moral philosophy played a crucial role in shaping Smith's views on human behaviour, norms, and economic interactions.

Hume's *Enquiry Concerning the Principles of Morals* explores the origins of moral principles and the nature of virtue. He argues that moral judgments are rooted in human sentiments and emotions rather than in rational deductions. According to Hume, feelings of pleasure and pain, sympathy, and social utility guide moral evaluations. His analysis of human nature and the social basis of moral behaviour deeply influenced Smith, who integrated these ideas into his economic theories.

Smith's famous concept of the "invisible hand"relies on the notion that individuals, driven by self-interest, inadvertently promote the public good through their economic activities. This idea aligns with Hume's assertion that individual actions, motivated by personal desires and emotions, can lead to socially beneficial outcomes. Smith extends Hume's moral philosophy to the area of economics, illustrating how self-regulating markets emerge from the aggregate actions of self-interested individuals, who may not be aware of the beneficial repercussions of their actions. Furthermore, Hume's exploration of justice and property rights directly informs Smith's extensive treatment of these issues. Hume views property rights as conventions that are embedded in society to resolve conflicts over resources and to ensure stability. Smith adopts this framework, emphasizing the importance of secure

property rights and justice in promoting economic development and market efficiency. He asserts that economic growth depends on a legal and institutional framework that protects individual rights and fosters trust among market participants.

In Smith's economic theory participants of market exchanges are not merely rational calculators but are influenced by social norms, sympathy, and the desire for approval from others. This nuanced understanding of human behaviour was inspired by Hume, but it allows Smith to construct a more comprehensive and realistic model of economic interactions. Like Hume Smith warns against overreliance on abstract principles and advocates for empirical observation and pragmatic solutions. Smith is wary of grandiose economic plans by politicians, advocating instead for policies grounded in empirical evidence and practical experience. This empirical and cautious approach to economic policy in Smith's thought reflects Hume's influence.

Smith's incorporation of Hume's ideas into his analysis of market behaviour, property rights, and economic policy underscores the deep intellectual bond between these two friends. By integrating Hume's moral philosophy into his economic treatise, Smith was able to develop a systematic understanding of the forces driving economic activity and prosperity.

An Enquiry Concerning the Principles of Morals (1777)

SECTION II.

Of Benevolence.

PART I.

It may be esteemed, perhaps, a superfluous task to prove, that the benevolent or softer affections are ESTIMABLE; and wherever they appear, engage the approbation, and good-will of mankind. The epithets sociable, good-natured, humane, merciful, grateful, friendly, generous, beneficent, or their equivalents, are known in all languages, and universally express the highest merit, which human nature is capable of attaining. Where these amiable qualities are attended with birth and power and eminent abilities, and display themselves in the good government or useful instruction of mankind, they seem even to raise the possessors of them above the rank of human nature, and make them approach in some measure to the divine. Exalted capacity, undaunted courage, prosperous success; these may only expose a hero or politician to the envy and ill-will of the public: But as soon as the praises are added of humane and beneficent; when instances are displayed of lenity, tenderness, or friendship; envy itself is silent, or joins the general voice of approbation and applause.

[…]

But I forget, that it is not my present business to recommend generosity and benevolence, or to paint, in their true colours, all the genuine charms of the social virtues. These, indeed, sufficiently engage every heart, on the first apprehension of them; and it is difficult to abstain from some sally of panegyric, as often as they occur in discourse or reasoning. But our object here being more the speculative, than the practical part of morals, it will suffice to remark, (what will readily, I believe, be allowed) that no qualities are more intitled to the general good-will and

approbation of mankind than beneficence and humanity, friendship and gratitude, natural affection and public spirit, or whatever proceeds from a tender sympathy with others, and a generous concern for our kind and species. These wherever they appear seem to transfuse themselves, in a manner, into each beholder, and to call forth, in their own behalf, the same favourable and affectionate sentiments, which they exert on all around.

PART II.

[…]

When we recommend even an animal or a plant as USEFUL and BENEFICIAL, we give it an applause and recommendation suited to its nature. As, on the other hand, reflection on the baneful influence of any of these inferior beings always inspires us with the sentiment of aversion. The eye is pleased with the prospect of corn-fields and loaded vine-yards; horses grazing, and flocks pasturing: but flies the view of briars and brambles, affording shelter to wolves and serpents.

A machine, a piece of furniture, a vestment, a house well contrived for use and conveniency, is so far beautiful, and is contemplated withpleasure and approbation. An experienced eye is here sensible to many excellencies, which escape persons ignorant and uninstructed.

Can anything stronger be said in praise of a profession, such as merchandize or manufacture, than to observe the advantages which it procures to society; and is not a monk and inquisitor enraged when we treat his order as useless or pernicious to mankind?

The historian exults in displaying the benefit arising from his labours. The writer of romance alleviates or denies the bad consequences ascribed to his manner of composition.

In general, what praise is implied in the simple epithet USEFUL! What reproach in the contrary!

[…]

Luxury, or a refinement on the pleasures and conveniencies of life, had not long been supposed the source of every corruption in government, and the immediate cause of faction, sedition, civil wars, and the total loss of liberty. It was, therefore, universally regarded as a vice, and was an object of declamation to all satyrists, and severe moralists. Those, who prove, or attempt to prove, that such refinements rather tend to the encrease of industry, civility, and arts, regulate anew our moral as well as political sentiments, and represent, as laudable or innocent, what had formerly been regarded as pernicious and blameable.

Upon the whole, then, it seems undeniable, that nothing can bestow more merit on any human creature than the sentiment of benevolence in an eminent degree; and that a part, at least, of its merit arises from its tendency to promote the interests of our species, and bestow happiness on human society. We carry our view into the salutary consequences of such a character and disposition; and whatever has so benign an influence, and forwards so desirable an end, is beheld with complacency and pleasure. The social virtues are never regarded without their beneficial tendencies, nor viewed as barren and unfruitful. The happiness of mankind, the order of

society, the harmony of families, the mutual support of friends, are always considered as the result of their gentle dominion over the breasts of men.

Appendix II. Of Self-Love

There is a principle, supposed to prevail among many, which is utterly incompatible with all virtue or moral sentiment; and as it can proceed from nothing but the most depraved disposition, so in its turn it tends still further to encourage that depravity. This principle is, that all BENEVOLENCE is mere hypocrisy, friendship a cheat, public spirit a farce, fidelity a snare to procure trust and confidence; and that while all of us, at bottom, pursue only our private interest, we wear these fair disguises, in order to put others off their guard, and expose them the more to our wiles and machinations. What heart one must be possessed of who possesses such principles, and who feels no internal sentiment that belies so pernicious a theory, it is easy to imagine: and also what degree of affection and benevolence he can bear to a species whom he represents under such odious colours, and supposes so little susceptible of gratitude or any return of affection. Or if we should not ascribe these principles wholly to a corrupted heart, we must at least account for them from the most careless and precipitate examination. Superficial reasoners, indeed, observing many false pretences among mankind, and feeling, perhaps, no very strong restraint in their own disposition, might draw a general and a hasty conclusion that all is equally corrupted, and that men, different from all other animals, and indeed from all other species of existence, admit of no degrees of good or bad, but are, in every instance, the same creatures under different disguises and appearances.

There is another principle, somewhat resembling the former; which has been much insisted on by philosophers, and has been the foundation of many a system; that, whatever affection one may feel, or imagine he feels for others, no passion is, or can be disinterested; that the most generous friendship, however sincere, is a modification of self-love; and that, even unknown to ourselves, we seek only our own gratification, while we appear the most deeply engaged in schemes for the liberty and happiness of mankind. By a turn of imagination, by a refinement of reflection, by an enthusiasm of passion, we seem to take part in the interests of others, and imagine ourselves divested of all selfish considerations: but, at bottom, the most generous patriot and most niggardly miser, the bravest hero and most abject coward, have, in every action, an equal regard to their own happiness and welfare.

Whoever concludes from the seeming tendency of this opinion, that those, who make profession of it, cannot possibly feel the true sentiments of benevolence, or have any regard for genuine virtue, will often find himself, in practice, very much mistaken. Probity and honour were no strangers to Epicurus and his sect. Atticus and Horace seem to have enjoyed from nature, and cultivated by reflection, as generous and friendly dispositions as any disciple of the austerer schools. And among the modern, Hobbes and Locke, who maintained the selfish system of morals, lived irreproachable lives; though the former lay not under any restraint of religion which might supply the defects of his philosophy.

An epicurean or a Hobbist readily allows, that there is such a thing as a friendship in the world, without hypocrisy or disguise; though he may attempt, by a philosophical chymistry, to resolve the elements of this passion, if I may so speak, into

those of another, and explain every affection to be self-love, twisted and moulded, by a particular turn of imagination, into a variety of appearances. But as the same turn of imagination prevails not in every man, nor gives the same direction to the original passion; this is sufficient even according to the selfish system to make the widest difference in human characters, and denominate one man virtuous and humane, another vicious and meanly interested. I esteem the man whose self-love, by whatever means, is so directed as to give him a concern for others, and render him serviceable to society: as I hate or despise him, who has no regard to any thing beyond his own gratifications and enjoyments. In vain would you suggest that these characters, though seemingly opposite, are at bottom the same, and that a very inconsiderable turn of thought forms the whole difference between them. Each character, notwithstanding these inconsiderable differences, appears to me, in practice, pretty durable and untransmutable. And I find not in this more than in other subjects, that the natural sentiments arising from the general appearances of things are easily destroyed by subtile reflections concerning the minute origin of these appearances. Does not the lively, cheerful colour of a countenanceinspire me with complacency and pleasure; even though I learn from philosophy that all difference of complexion arises from the most minute differences of thickness, in the most minute parts of the skin; by means of which a superficies is qualified to reflect one of the original colours of light, and absorb the others?

But though the question concerning the universal or partial selfishness of man be not so material as is usually imagined to morality and practice, it is certainly of consequence in the speculative science of human nature, and is a proper object of curiosity and enquiry. It may not, therefore, be unsuitable, in this place, to bestow a few reflections upon it. […].

The most obvious objection to the selfish hypothesis is, that, as it is contrary to common feeling and our most unprejudiced notions, there is required the highest stretch of philosophy to establish so extraordinary a paradox. To the most careless observer there appear to be such dispositions as benevolence and generosity; such affections as love, friendship, compassion, gratitude. These sentiments have their causes, effects, objects, and operations, marked by common language and observation, and plainly distinguished from those of the selfish passions. And as this is the obvious appearance of things, it must be admitted, till some hypothesis be discovered, which by penetrating deeper into human nature, may prove the former affections to be nothing but modifications of the latter. All attempts of this kind have hitherto proved fruitless, and seem to have proceeded entirely from that love of SIMPLICITY which has been the source of much false reasoning in philosophy. I shall not here enter into any detail on the present subject. Many able philosophers have shown the insufficiency of these systems. And I shall take for granted what, I believe, the smallest reflection will make evident to every impartial enquirer.

But the nature of the subject furnishes the strongest presumption, that no better system will ever, for the future, be invented, in order to account for the origin of the benevolent from the selfish affections, and reduce all the various emotions of the human mind to a perfect simplicity. The case is not the same in this species of philosophy as in physics. Many an hypothesis in nature, contrary to first appearances,

has been found, on more accurate scrutiny, solid and satisfactory. Instances of this kind are so frequent that a judicious, as well as witty philosopher, has ventured to affirm, if there be more than one way in which any phenomenon may be produced, that there is general presumption for its arising from the causes which are the least obvious and familiar. But the presumption always lies on the other side, in all enquiries concerning the origin of our passions, and of the internal operations of the human mind. The simplest and most obvious cause which can there be assigned for any phenomenon, is probably the true one. When a philosopher, in the explication of his system, is obliged to have recourse to some very intricate and refined reflections, and to suppose them essential to the production of any passion or emotion, we have reason to be extremely on our guard against so fallacious an hypothesis. The affections are not susceptible of any impression from the refinements of reason or imagination; and it is always found that a vigorous exertion of the latter faculties, necessarily, from the narrow capacity of the human mind, destroys all activity in the former. Our predominant motive or intention is, indeed, frequently concealed from ourselves when it is mingled and confounded with other motives which the mind, from vanity or self-conceit, is desirous of supposing more prevalent: but there is no instance that a concealment of this nature has ever arisen from the abstruseness and intricacy of the motive. A man that has lost a friend and patron may flatter himself that all his grief arises from generous sentiments, without any mixture of narrow or interested considerations: but a man that grieves for a valuable friend, who needed his patronage and protection; how can we suppose, that his passionate tenderness arises from some metaphysical regards to a self-interest, which has no foundation or reality? We may as well imagine that minute wheels and springs, like those of a watch, give motion to a loaded waggon, as account for the origin of passion from such abstruse reflections.

Animals are found susceptible of kindness, both to their own species and to ours; nor is there, in this case, the least suspicion of disguise or artifice. Shall we account for all THEIR sentiments, too, from refined deductions of self-interest? Or if we admit a disinterested benevolence in the inferior species, by what rule of analogy can we refuse it in the superior?

Love between the sexes begets a complacency and good-will, very distinct from the gratification of an appetite. Tenderness to their offspring, in all sensible beings, is commonly able alone to counter-balance the strongest motives of self-love, and has no manner of dependance on that affection. What interest can a fond mother have in view, who loses her health by assiduous attendance on her sick child, and afterwards languishes and dies of grief, when freed, by its death, from the slavery of that attendance?

Is gratitude no affection of the human breast, or is that a word merely, without any meaning or reality? Have we no satisfaction in one man's company above another's, and no desire of the welfare of our friend, even though absence or death should prevent us from all participation in it? Or what is it commonly, that gives us any participation in it, even while alive and present, but our affection and regard to him?

These and a thousand other instances are marks of a general benevolence in human nature, where no REAL interest binds us to the object. And how an IMAGINARY interest known and avowed for such, can be the origin of any passion or emotion, seems difficult to explain. No satisfactory hypothesis of this kind has yet been discovered; nor is there the smallest probability that the future industry of men will ever be attended with more favourable success.

But farther, if we consider rightly of the matter, we shall find that the hypothesis which allows of a disinterested benevolence, distinct from self-love, has really more SIMPLICITY in it, and is more conformable to the analogy of nature than that which pretends to resolve all friendship and humanity into this latter principle. There are bodily wants or appetites acknowledged by every one, which necessarily precede all sensual enjoyment, and carry us directly to seek possession of the object. Thus, hunger and thirst have eating and drinking for their end; and from the gratification of these primary appetites arises a pleasure, which may become the object of another species of desire or inclination that is secondary and interested. In the same manner there are mental passions by which we are impelled immediately to seek particular objects, such as fame or power, or vengeance without any regard to interest; and when these objects are attained a pleasing enjoyment ensues, as the consequence of our indulged affections. Nature must, by the internal frame and constitution of the mind, give an original propensity to fame, ere we can reap any pleasure from that acquisition, or pursue it from motives of self-love, and desire of happiness. If I have no vanity, I take no delight in praise: if I be void of ambition, power gives me no enjoyment: if I be not angry, the punishment of an adversary is totally indifferent to me. In all these cases there is a passion which points immediately to the object, and constitutes itour good or happiness; as there are other secondary passions which afterwards arise, and pursue it as a part of our happiness, when once it is constituted such by our original affections. Were there no appetite of any kind antecedent to self-love, that propensity could scarcely ever exert itself; because we should, in that case, have felt few and slender pains or pleasures, and have little misery or happiness to avoid or to pursue.

Now where is the difficulty in conceiving, that this may likewise be the case with benevolence and friendship, and that, from the original frame of our temper, we may feel a desire of another's happiness or good, which, by means of that affection, becomes our own good, and is afterwards pursued, from the combined motives of benevolence and self-enjoyments? Who sees not that vengeance, from the force alone of passion, may be so eagerly pursued, as to make us knowingly neglect every consideration of ease, interest, or safety; and, like some vindictive animals, infuse our very souls into the wounds we give an enemy; […] and what a malignant philosophy must it be, that will not allow to humanity and friendship the same privileges which are undisputably granted to the darker passions of enmity and resentment; such a philosophy is more like a satyr than a true delineation or description of human nature; and may be a good foundation for paradoxical wit and raillery, but is a very bad one for any serious argument or reasoning.

James Steuart

Adam Smith was strongly influenced by the writings of his fellow Scotsman, James Steuart (1712–1780), in particular by Steuart's *An Inquiry into the Principles of Political Economy: Being an Essay on the Science of Domestic Policy in Free Nations*. Although Adam Smith is widely celebrated as one of the first modern economists, having laid the foundations of classical economics, it is important to recognize the intellectual environment in which he developed his ideas.

James Steuart's contributions to economic thought are substantial, although they are often overshadowed by Smith's later work. Steuart's *Principles of Political Economy* (1767) predates Smith's *The Wealth of Nations* by 9 years and the book was the first systematic treatise on economics written in English. It addresses various topics, including value, money, population, and international trade, in a detailed and analytical manner. Steuart is often seen as a mercantilist, but his work contains a complexity that transcends simple classification, although he advocates government intervention and regulation of the economy.

One of the key areas where Steuart influenced Smith is the understanding of market dynamics and the role of self-interest. Steuart recognizes the importance of individual actions in the functioning of the economy, and he discusses how individuals, through their pursuit of personal gain, might inadvertently contribute to the overall economic welfare, a notion that Smith would further develop and popularize. Furthermore, Steuart explores the nature of money, its functions, and the impact of banking practices on the economy. In *The Wealth of Nations* Smith expands on these ideas without direct reference to Steuart, providing a more detailed examination of money's role in economic transactions and the benefits and risks associated with different banking practices. However, while Smith drew on many of Steuart's insights, he also diverged significantly from Steuart's views. In *The Wealth of Nations*, Smith's famous example of the productions of pins illustrates how the division of labour significantly enhances productivity and economic growth. This concept became one of the cornerstones of classical economics and set Smith apart from his predecessors and contemporaries, including Steuart.

Smith synthesizes and expands upon Steuart's contributions, among others, to formulate a more integrated, comprehensive and enduring framework of economic theory. Thus, Steuart's work can be seen as an important stepping stone that helped pave the way for Smith's work, but *The Wealth of Nations* represents a significant departure from Steuart's views.

An Inquiry into the Principles of Political Economy: Being an Essay on the Science of Domestic Policy in Free Nations (1767)

Chapter XXI

Recapitulation of the First Book.

Introd.

I set out by distinguishing government from political economy; calling, the first the power to command, the second the talent to execute. Thus the governor may

restrain, but the steward must lead, and, by direct motives of self-interest, gently conduct free and independent men to concur in certain schemes ultimately calculated for their own proper benefit.

The object is, to provide food, other necessaries and employment, not only for those who actually exist, but also for those who are to be brought into existence. This is accomplished, by engaging every one of the society to contribute to the service of others, in proportion only as he is to reap a benefit from reciprocal services. To render this practicable, the spirit of the people must be studied, the different occupations prescribed to each must first be adapted to their inclinations, and when once they have taken a taste for labour, these inclinations must be worked upon by degrees, so as to be bent towards such pursuits as are most proper for attaining the end desired.

CHAP. I.

He who sits at the head of this operation, is called the statesman. I suppose him to be constantly awake, attentive to his employment, able and uncorrupted, tender in his love for the society he governs, impartially just in his indulgence for every class of inhabitants, and disregardful of the interest of individuals, when that regard is inconsistent with the general welfare.

Did I propose a plan of execution, I confess this supposition would be absurd; but as I mean nothing farther than the investigation of principles, it is no more so, than to suppose a point, a straight line, a circle, or an infinite, in treating of geometry.

CHAP. II.

To prepare the way for treating this subject, in that order which the revolutions of the last centuries have pointed out as the most natural, I have made the distribution of my plan in the following order. Population and agriculture are the foundations of the whole. Civil and domestic liberty, introduced into Europe by the dissolution of the feudal form of government, set trade and industry on foot; these produced wealth and credit; these again debts and taxes; and all together established a perfectly new system of political economy, the principles of which it is my intention to deduce and examine.

Population and agriculture, as I have said, must be the basis of the whole, in all ages of the world; and as they are so blended together in their connections and relations, as to make the separation of them quite incompatible with perspicuity and order, they have naturally been made the subject of the first book.

CHAP. III.

I have shewn, that the first principle of multiplication is generation; the second is food: the one gives existence and life; the other preserves them.

The earth's spontaneous fruits being of a determined quantity, never can feed above a determined number. Labour is a method of augmenting the productions of nature, and in proportion to the augmentation, numbers may increase. From these positions, I conclude,

CHAP. IV.

That the numbers of mankind must ever have been in proportion to the produce of the earth; and this produce must constantly be in the compound ratio of the fertility of the soil, and labour of the inhabitants. Consequently, there can be no

determined universal proportion over the world, between the number of those necessary for labouring the soil, and of those who may be maintained by its produce. Here I am led to examine the motives which may induce one part of a free people to labour, in order to feed the other.

This I shew to proceed from the different wants to which mankind are liable.

CHAP. V.

Here I introduce a statesman, as being necessary to model the spirit of a society. He contrives and encourages reciprocal objects of want, which have each their allurement.

This engages every one in a different occupation, and must hurt the former simplicity of manners. I shew how essential it is, to keep a just balance throughout every part of industry, that no discouragement may be cast upon any branch of it, either from superfluity, or want; and I have pointed out, how the dividing of food between parents and children, is the means of bringing on scarcity, which inconveniency can only be removed by an augmentation of labour.

If a society does not concur in this plan of reciprocal industry, their numbers will cease to increase; because the industrious will not feed the idle. This I call a state of a moral impossibility of increase in numbers, and I distinguish it from the physical impossibility, which can take place only when nature itself, not man, refuses to produce subsistence.

From this I apply to each particular society what I had before found applicable to mankind in general; to wit,

That the inhabitants of every country must be in the compound proportion of the quantity of food produced in it, and of the industry of the lower classes. If the food produced surpass the proportion of industry, the balance of food will be exported; if the industry surpasses the proportion of food, its deficiency must be supplied by imports.

Reciprocal wants excite to labour; consequently, those whose labour is not directed towards the cultivation of the soil, must live upon a surplus produced by those who do. This divides the society into two classes. The one I call farmers, the other free hands.

As the creating these reciprocal wants was what set the society to work, and distributed them naturally into the two classes we have mentioned; so the augmentation of wants will require an augmentation of free hands, and their demand for food will increase agriculture.

CHAP. VI.

Here I define luxury to mean no more than the consumption of superfluity, or the supplying of wants not essentially necessary to life; and, I say, that a taste for superfluity will introduce the use of money, which I represent as the general object of want, that is of desire, among mankind; and I shew how an eagerness to acquire it becomes an universal passion, a means of increasing industry among the free hands; consequently, of augmenting their numbers; consequently, of promoting agriculture for their subsistence.

The whole operation I have been describing proceeds upon one supposition, to wit, that the people have a taste for labour, and the rich for superfluity. If these be

covetous and admirers of simplicity; or those be lazy and void of ambition, the principles laid down will have no effect: and so in fact we find, that it is not in the finest countries in the world where most inhabitants are found, but in the most industrious.

Let it therefore never be said, there are too many manufacturers in a free country. It is the same thing as if it was said, there are too few idle persons, too few beggars, and too many husbandmen.

CHAP. VII.

Here I break off my subject, to answer an objection arising from these principles.

OBJ. How could the simplicity of the antients be compatible with a great multiplication?

ANsw. In antient times men were forced to labour the ground because they were slaves to others. In modern times the operation is more complex, and as a statesman cannot make slaves of his subjects, he must engage them to become slaves to their own passions and desires; this is the only method to make them labour the ground, and provided this be accomplished, by whatever means it is brought about, mankind will increase.

CHAP. VIII.

This question being dismissed, I point out a method of estimating the proportion of numbers between the farmers and free hands of a country, only as an illustration of the principle already laid down, to wit, that it is the surplus of the farmers which goes for the subsistence of the others.

This surplus I shew to be the same thing as the value of the land rents; and hence I conclude,

first, That the rising of the rents of lands proves the augmentation of industry, and the multiplication of free hands; but as rents may rise, and yet the number of inhabitants continue the same as before, I infer,

2dly, That the revolution must then mark the purging of the lands of superfluous mouths, and forcing these to quit their mother earth, in order to retire to towns and villages, where they may usefully swell the number of the free hands and apply to industry.

3dly, That the more a country is in tillage, the more it is inhabited, and the fewer free hands are to be found: that the more it is laid into pasture, the less it is inhabited, and the greater is the proportion of free hands.

CHAP. IX.

Next I consider the principles which determine the place of residence.

The farmers must live upon, or near the spot they labour; that is, either upon their farms or in their villages.

The free hands I divide into two conditions. The first composed of the proprietors of the surplus of food, that is the landlords; together with those who can purchase it with a revenue already acquired, that is, the monied interest. The second condition is composed of those who must purchase some of this surplus with their daily labour.

Those of the first condition may live where they please; those of the second must live where they can.

Bibliography

Texts by Adam Smith

Smith, A. (1983). Lectures on Rhetoric and Belles Lettres. In J. C. Bryce (Ed.), *Glasgow Edition of the Works and Correspondence of Adam Smith (Vol. IV)*. Clarendon Press.

Smith, A. (1795). Essays on Philosophical Subjects. In W. P. D. Wightman & J. C. Bryce (Eds.), *Glasgow Edition of the Works and Correspondence of Adam Smith (Vol. III)*. Clarendon Press.

Smith, A. (1759). The Theory of Moral Sentiments. In D. D. Raphael & L. M. Macfie (Eds.), *Glasgow Edition of the Works and Correspondence of Adam Smith (Vol. I)*. Clarendon Press. (1979 second edition). Reprint (1984) Indianapolis, Liberty Classics.

Smith, A. (1776a). An Inquiry into the Nature and Causes of the Wealth of Nations. In R. H. Campbell & A. S. Skinner (Eds.), *Glasgow Edition Of the works and Correspondence of Adam Smith (Vol. II)*. Clarendon Press. (1979 second edition) Reprint (1981) Indianapolis, Liberty Classics.

Smith, A. (1776b). In K. Sutherland (Ed.), *An Inquiry into the Nature and Causes of the Wealth of Nations. A selected edition*. Oxford.

Select Bibliography of Monographs

Anderson, E. (1995). *Value in Ethics and Economics*. Harvard University Press.

Appleby, J. O. (1978). *Economic Thought and Ideology in Seventeenth-century England*. Princeton University Press.

Berry, C. J., Paganelli, M. P., & Smith, C. (Eds.). (2013). *The Oxford Handbook of Adam Smith*. Oxford.

Berry, C. J. (2013). *The Idea of Commercial Society in the Scottish Enlightenment*. Edinburgh University Press.

Brantlinger, P. (1996). *Culture and Credit in Britain, 1694–1994*. Cornell University Press.

Brewer, J., & Styles, J. (Eds.). (1980). *An Ungovernable People. The English and their Law in the Seventeenth and Eighteenth Centuries*. Hutchinson.

Brewer, J. (1989). *The Sinews of Power. War, Money, and the English State, 1688–1783*. Unwin Hyman.

Campbell, T. D. (1971). *Adam Smith's Science of Morals*. University of Glasgow Press.

© The Editor(s) (if applicable) and The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9

Copley, S., & Sutherland, K. (Eds.). (1995). *Adam Smith's "Wealth of Nations". New Interdisciplinary Essays*. Manchester University Press.
Cropsey, J. (1957). *Polity and Economy. An Interpretation of the Principles of Adam Smith*. Nijhoff.
Daunton, M. J. (1996). *Progress and Poverty. An Economic and Social History of Britain, 1700–1850*. Oxford University Press.
Diatkine, D. (2021). *Adam Smith and the Wealth of Nations. The Discovery of Capitalism and its Limits*. Springer.
Evensky, J. (2005). *Adam Smith's Moral Philosophy: A Historical and Contemporary Perspective on Markets, Law, Ethics, and Culture*. Cambridge University Press.
Fleischacker, S. (2021). *Adam Smith*. Routledge.
Forman-Barzilai, F. (2010). *Adam Smith and the Circles of Sympathy*. Cambridge University Press.
Griswold, C. L. (1999). *Adam Smith and the Virtues of Enlightenment*. Cambridge University Press.
Haakonssen, K. (1981). *The Science of the Legislator. The Natural Jurisprudence of David Hume and Adam Smith*. Cambridge University Press.
Haakonssen, K. (Ed.). (2006). *The Cambridge Companion to Adam Smith*. Cambridge, Cambridge University Press.
Hanley, R. P. (2009). *Adam Smith and the Character of Virtue*. Cambridge University Press.
Hanley, R. (Ed.). (2016). *Adam Smith: His Life, Thought, and Legacy*. Princeton University Press.
Hausman, D. M. (1992). *Essays on Philosophy and Economic Methodology*. Cambridge University Press.
Herzog, L. (2013). *Inventing the Market: Smith, Hegel and Political Theory*. Oxford University Press.
Hill, M., & Montag, W. (2014). *The other Adam Smith*. Stanford University Press.
Hill, L. (2019). *Adam Smith's Pragmatic Liberalism. The Science of Welfare*. Palgrave Macmillan.
Hirschman, A. O. (1977). *The Passions and the Interests. Political Arguments for Capitalism before its Triumph*. Princeton University Press.
Langford, P. (1989). *A Polite and Commercial People. England 1727–1783*. Oxford University Press.
Liu, G. M. (2022). *Adam Smith's America: How a Scottish Philosopher Became an Icon of American Capitalism*. Princeton University Press.
Lovejoy, A. O. (1960). *The Great Chain of Being*. Harper.
Maurer, C. (2019). *Self-love, Egoism and the Selfish Hypothesis*. Edinburgh University Press.
Mills, R. J. W., & Smith, C. (Eds.). (2021). *The Scottish Enlightenment: Human Nature, Social Theory and Moral Philosophy: Essays in Honour of Christopher J. Berry*. Edinburgh University Press.
McKendrick, N., Brewer, J., & Plumb, J. H. (1982). *The Birth of a Consumer Society: The Commercialization of Eighteenth-century England*. Europa.
McNally, D. (1988). *Political economy and the rise of capitalism. A reinterpretation*. University of California Press.
Minowitz, P. (1995). *Profits, Priests and Princes. Adam Smith's Emancipation of Economics from Politics and Religion*. Cambridge University Press.
Muller, J. Z. (1993). *Adam Smith in His Time and Ours. Designing the Decent Society*. Macmillan.
Myers, M. L. (1983). *The Soul of Modern Economic Man. Ideas of Self-Interest. Thomas Hobbes to Adam Smith*. University of Chicago Press.
Norman, J. (2018). *Adam Smith: Father of Economics*. Basic Books.
Nussbaum, M. C. (2019). *The Cosmopolitan Tradition: A Noble but Flawed Ideal*. Harvard University Press.
Paganelli, M. P. (2020). *The Routledge Guidebook to Smith's Wealth of Nations*. Routledge.
Pocock, J. G. A. (1985). *Virtue, Commerce, and History. Essays on Political Thought and History, Chiefly in the Eighteenth Century*. Cambridge University Press.
Raphael, D. D. (1985). *Adam Smith*. Oxford University Press.
Rommel, T. (2006). Das Selbstinteresse von Mandeville bis Smith. *Ökonomisches Denken in ausgewählten Schriften des 18. Jahrhunderts*. Winter.
Ross, I. S. (2010). *The Life of Adam Smith*. Clarendon Press.

Sagar, P. (2022). *Adam Smith Reconsidered: History, Liberty and the Foundations of Modern Politics*. Princeton University Press.
Sagar, P. (Ed.). (2023). *Interpreting Adam Smith. Critical Essays*. Cambridge University Press.
Schliesser, E. (2017). *Adam Smith: Systematic Philosopher and Public Thinker*. Oxford University Press.
Schwarze, M. (2020). *Recognizing Resentment: Sympathy, Injustice and Liberal Political Thought*. Cambridge University Press.
Sen, A. (1987). *On Ethics and Economics*. Blackwell.
Shell, M. (1983). *Money, Language, and Thought. Literary and Philosophical Economies from the Medieval to the Modern Era*. Johns Hopkins University Press.
Smith, C. (2020). *Adam Smith*. Polity Press.
Smith, V. L., & Wilson, B. J. (2019). *Humanomics: Moral Sentiments and the Wealth of Nations for the Twenty-first Century*. Cambridge University Press.
Werhane, P. H. (1991). *Adam Smith and his Legacy for Modern Capitalism*. Oxford University Press.
West, E. G. (1976). *Adam Smith. The Man and His Works*. Liberty Classics.
West, E. G. (1990). *Adam Smith and Modern Economics: From Market Behavior to Public Choice*. Edward Elgar.
Winch, D. (1996). *Riches and Poverty. An Intellectual History of Political Economy in Britain, 1750–1834*. Cambridge University Press.

Index

A
A Sentimental Journey, by Sterne, 13
A Vindication of the Rights of Women, by Wollstonecraft, 90, 94
Act of Navigation, 118
Altruistic, 5
America, 29, 37, 64, 65, 73, 103, 113–115
Aquinas, T., 16, 54, 66, 76
Aristotle, 35, 45, 66, 101
Assets, 46, 98, 99, 104

B
Beggar's Opera, by Gay, 9, 89
Benevolence, 6, 11, 42, 43, 145, 148, 158–163
Blair, H., 15
Brecht, B., 9
Buccleugh, Duke of, 14
Butcher, brewer, baker, 6, 35, 37, 43, 50, 152, 153, 155, 156
Byron, L., 13

C
Capitals, 4, 27, 28, 30, 34–35, 38, 44, 47, 50, 52, 57, 58, 60, 61, 64, 67, 69, 73, 74, 79, 81–84, 86, 87, 96–104, 109, 116–118, 121, 123, 129, 137
Churches, 4, 5, 10, 11, 15, 133, 135–137, 155
Classical dichotomy, 37, 39
Clockwork, 38, 53, 123
Clubs, 8, 15, 65
Colbert, J.B., 116
Colonialism, 2, 142
Colonies, 3, 9, 64–66, 113–116, 121, 125, 142
Commodities, 10, 33–37, 39, 54–57, 68, 82–85, 101, 106–108, 113, 117, 118, 121, 122
Consumers, 25, 43, 79, 80, 93, 94, 99, 102, 106–108, 121, 122
Corporations, 47, 48, 50, 57
Cromwell, O., 118

D
Decline and Fall of the Roman Empire, by Gibbon, 21
Defoe, D., 6, 9, 81, 91, 115, 151–157
Demands, 2, 19, 39, 46, 48, 54–57, 59–61, 64–70, 73, 79, 84–86, 107, 112, 132, 166
Division of labour, 2, 21, 22, 24–30, 32, 35, 39, 42–44, 57, 64, 69, 72, 80, 86, 92–94, 117, 118, 120, 134, 141, 143, 148, 151, 164

E
Edinburgh, 13, 28, 29
Elite, 8, 13, 22, 90
Empirical data, 5, 15, 18
Enlightenment, 5, 15, 17, 27, 52, 73, 135
Entrepreneurs, 5, 32, 34, 35, 43, 49, 55, 58, 60, 61, 64, 67, 68, 70, 72, 73, 76–84, 86–88, 92, 101, 108, 112, 114, 119, 121, 123
Equilibrium, 56–58, 61, 120, 135
Exchanges, 2, 8, 15, 25, 28, 29, 32–37, 39, 42–44, 65, 85, 86, 98, 105, 108, 112, 114, 120, 132, 142, 143, 158

© The Editor(s) (if applicable) and The Author(s), under exclusive license to Springer Nature Switzerland AG 2025

T. Rommel, H. Winter, *Adam Smith: The Wealth of Nations*, Springer Graduate Texts in Philosophy, https://doi.org/10.1007/978-3-031-91619-9

F
Fable of the Bees, by Mandeville, 6, 11, 70, 104, 148, 149
Ferguson, A., 15
Ford, H., 26
Franklin, B., 114
Freight, 29, 102

G
Gay, T., 9, 89
Gibbon, E., 21
Glasgow, 2, 12, 13, 15
Globalisation, 29
Gold, 13, 37, 105, 132, 142, 154
Goldsmith, O., 13, 129
Grand tour, 13, 14, 22
Guilds, 47, 50, 57, 128
Gulliver's Travels, by Swift, 38

H
Hand, the invisible, 2, 45, 49, 51–61, 79, 80, 117, 129, 135, 141, 142, 148, 157
Historiography, 21
History of Astronomy, by Smith, 52, 142
Hobbes, T., 10, 160
Hogarth, W., 8
Homo economicus, 60
Horace, 136, 160
Hume, D., 6, 12, 13, 15, 16, 66, 135, 136, 157–163
Hutcheson, F., 11, 12

I
Immiseration thesis, 69
Industrialisation, 26, 82, 141
Infrastructure, 28, 30, 84, 131, 132, 152
Invisible hand, 2, 45, 49, 52–56, 61, 79, 80, 117, 129, 135, 136, 141–143, 148, 157
Iustum pretium, 54

J
Johnson, S., 21

K
Kames, L., 15
Kirkcaldy, 12, 13

L
Labour, 4, 9, 24, 52, 76, 91, 113, 132, 142, 151
Lassalle, F., 124
le Rond d'Alembert, J.-B., 14
Leviathan, by Hobbes, 10
Liberalism, economic, 2, 141, 142
Liberty, 20, 26, 45–50, 56, 77, 98, 112, 116, 122–124, 128, 129, 131, 135, 159, 160, 165
Locke, J., 19, 27, 122, 160
Lotteries, 59
Luxury, 3, 11, 20, 29, 53, 67, 70, 85, 86, 88, 93, 98, 104–110, 131, 138, 148–151, 159, 166

M
Mandeville, B., 6, 11, 16, 70, 104, 129, 146, 148–151
Market prices, 54–57, 61
Mercantilism, 2, 112, 113, 115, 116, 119, 120, 122–124, 128, 142
Merchants, 5, 8, 10, 15, 36, 43, 48, 49, 56, 59–61, 68, 73, 76–84, 87, 88, 92, 96, 98–100, 103, 113, 114, 117, 119, 121–123, 133, 150–153
Metaphysics, 18
Mill, J.S., 2
Minarchy, 124
Moll Flanders, by Defoe, 91, 115, 151
Money, 13, 32, 34–39, 59, 69–71, 76, 77, 80, 82, 83, 87, 96, 98, 107, 123, 124, 132, 133, 137, 138, 164, 166
Monopolies, 57, 85, 114, 117, 118, 121, 125, 143
Moral philosophy, 2, 10–12, 16–19, 21, 76, 141, 143, 145, 157, 158

N
Natural law, 2, 45, 124, 136
Natural prices, 45, 54–57, 61
Natural rules, 35
Natural state, 47
Nature, 2–4, 6, 8–11, 15–17, 19–22, 29, 30, 32, 33, 38, 39, 42, 44, 45, 50, 52, 58, 65, 71–73, 76, 103–106, 112, 123, 124, 129, 130, 134, 135, 141, 143, 145–148, 152, 155–166
Navigation Act, 29
Newspapers, 8
Newton, I., 16, 38

O
Optics, by Newton, 16
Oxford, 3, 12

P
Paris, 13, 14
Physiocrats, 76, 100, 113, 122–124, 128, 129
Pin, 24, 25, 29, 92
Pitt, W., 13
Politicians, 5, 10, 11, 15, 53, 78, 80, 83, 92, 97, 98, 104, 108, 114, 115, 117, 119, 124, 129, 136, 158
Politics, by Aristotle, 35
Poor laws, 46, 50, 57
Producers, 9, 24, 43, 44, 54, 79, 93, 94, 108, 121, 122
Productivity, 24, 26, 30, 43, 148, 151, 164
Profits, 11, 27, 34, 35, 43, 46, 54–57, 59–61, 64, 67, 69, 71, 76–85, 87, 88, 91, 96, 98–100, 102, 103, 108, 112, 114, 129, 133, 138
Puritan, 96, 109

Q
Quesnay, F., 14, 122–124, 129

R
Ramsay, A., 15
Rents, 34, 35, 54, 55, 60, 61, 64, 82, 84–86, 88, 99, 137, 138, 152–154, 167
Ricardo, D., 2
Risks, 58, 59, 76, 81, 82, 132, 138, 164
Robertson, W., 15
Robinson Crusoe, by Defoe, 9, 151
Royal Society, 5, 15, 17, 38, 52

S
Salons, 14
Select Society, 15
Self-interest, 11, 19, 22, 25, 42, 44, 45, 49, 50, 54, 56–58, 71, 72, 76, 78–81, 102, 117, 122, 141–143, 146, 148, 149, 157, 162, 164, 165
Selflessness, 10, 42, 44, 70
Self-preservation, 19, 42, 48, 71, 106, 112, 130
Shaftesbury, Earl of, 6, 11, 145–148
Shakespeare, W., 22
Shopkeepers, 43, 79, 80, 114, 115, 125
Silver, 37, 105, 106, 132, 142, 154
Specialization, 148, 151
Standing army, 130
State, role of the, 4, 127–138
Sterne, L., 13
Steuart, J., 6, 92–94, 115, 164–167
Supplies, 2, 25, 27, 28, 32, 43, 54–57, 61, 64, 65, 68, 79, 85, 107, 113, 117, 120, 142, 143, 149, 152, 154–156, 160
Swift, J., 38
Sympathy, 12, 44, 64, 66, 90, 134, 141, 157–159

T
Tableau économique, 122
Taxation, 4, 107, 108, 137, 138
Taxes, 79, 107, 118, 119, 131, 137, 138, 165
The Tempest, by Shakespeare, 22
The Theory of Moral Sentiments, by Smith, 10, 12, 15, 44, 52, 53, 90, 136, 141
Threepenny Opera, by Brecht, 9
Tories, 10
Trades, 8, 9, 16, 21, 24, 25, 27, 29, 32, 34, 35, 38, 45, 47, 49, 56–59, 66, 71, 76–81, 83, 99, 100, 102, 103, 109, 113–125, 128, 130, 131, 133, 134, 141, 148–157, 164, 165
Transportation, 29, 30, 131, 152

U
Universities, 2, 4, 5, 8, 12–14, 90, 93, 133

V
Values, 2, 18, 20, 21, 27, 32–37, 39, 52, 54, 65, 68, 73, 82, 84, 87, 88, 97, 100–102, 106, 109, 117, 118, 120, 132, 134–136, 164, 167
The Vicar of Wakefield, by Goldsmith, 13

W
Wages, 32, 34, 35, 46, 53–57, 59–61, 64–74, 76, 77, 82–84, 91, 92, 97, 99, 101, 108, 137, 138, 157
Wedgwood, 9
Wheels, 37–39, 132, 150, 162
Whigs, 10
Wollstonecraft, M., 90, 94